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AGRICULTURAL POLICY REFORM PROGRAM**

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**LIBERALIZATION
AND
PRIVATIZATION
OF KEY
SUBSECTORS
IN EGYPT'S
AGRICULTURAL
ECONOMY:
PROGRESS &
CHALLENGES**



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LIST OF ACRONYMS

ACC	Agricultural Commodity Council
ALCOTEXA	Alexandria Cotton Exporters Association
APCP	Agriculture Production and Credit Project
APRP	Agricultural Policy Reform Program
ATICOT	Arab Trade and Investment Company for Cotton Trading
BM	Policy benchmark
C&F	Cost and freight (no insurance included)
CAPMAS	Central Agency for Public Mobilization and Statistics
CAPQ	Central Administration for Plant Quarantine (MALR)
CATGO	Cotton Arbitration and Testing General Organization
CIF	Cost, insurance and freight
CIT-HC	Cotton and International Trade Holding Company (cotton companies merged with SWRMC-HC in late June 2000)
CRI	Cotton Research Institute (of ARC)
CSPP	Cotton Sector Promotion Program (GTZ-funded)
ELS	Extra Long Staple
EMEPAC	Egyptian Company for Producing, Marketing and Exporting Agricultural Crops
ESA	Employee stakeholder association (form of privatization)
ETMF	Egyptian Textile Manufacturers' Federation
EU	European Union
fd.	Feddan (equivalent to 0.420 hectares or 1.037 acres)
FIHC	Food Industries Holding Company
FOB	Free on board
GATT	General Agreement on Tariffs and Trade
GOE	Government of Egypt
GTZ	Deutsche Gesellschaft Fur Technische Zusammenarbeit
HC	Holding Company
IFC	International Finance Corporation
IPM	Integrated Pest Management
kg	Kilogram
lk	Lint kantar
LE	Egyptian Pound
LS	Long Staple
MALR	Ministry of Agriculture and Land Reclamation
MEFT	Ministry of Economy and Foreign Trade
MWRI	Ministry of Water Resources and Irrigation
MLS	Medium Long Staple
MPE	Ministry of Public Enterprise
mt	Metric ton
MVE	Monitoring, Verification, and Evaluation Unit of APRP
NGO	Non-Governmental Organization
PBDAC	Principal Bank for Development and Agricultural Credit

PCSU	Privatization Coordination Support Unit
RFM-HC	Rice and Flour Mills Holding Company (merged with FIHC in 12/99)
TDI	Reform Design and Implementation Unit of APRP
RMC	Ready-made clothes
RMG	Ready-made garments
S&W	Spinning & weaving
SK	Seed kentar
SWRMC-HC	Holding Company for Spinning, Weaving and Ready Made Clothes
TCF	Textile Consolidation Fund
TMT-HC	Textile Manufacturing and Trade Holding Company (merged with SWRMC-HC in late June 2000)
UD	Universal density (bale)
USAID	United States Agency for International Development

FOREWORD and ACKNOWLEDGMENTS

This paper draws from many sources and is meant to be an interpretation of progress to date, in liberalization and privatization of two commodity subsystems that have been the focus of many APCP and APRP policy benchmarks. The usual disclaimer applies particularly strongly in this report; the views of the author are not necessarily those of APRP, USAID, MALR or any other GOE ministry or agency.

Although this paper began as an effort to summarize progress in implementing APRP policy benchmarks, it quickly turned from being a mid-program scorecard to become a set of interpretive essays. The paper attempts to highlight reforms and their successful implementation, while maintaining a critical detachment in discussing liberalization shortcomings, barriers to reform and suggested future measures. The author, who has monitored and evaluated policy reform in the cotton and rice subsectors since the beginning of APRP, has interviewed many key public and private officials, managers, and market participants at different points in time. In some sections, private sector views on progress in liberalization and privatization are articulated and represented forcefully. This is because private sector feedback is generally important in any policy reform program, but also because private sector voices need to be heard in the Egyptian political economy context, where the public sector legacy and dominance remain powerful forces. As in any complex, gradual program of policy reform, progress has been mixed, though accomplishments to date provide grounds for optimism.

Many individuals contributed their observations, data, and points of view to this report. The chapter on progress in rice subsector liberalization benefitted from an excellent review by Lawrence Kent of APRP/RDI. The chapter on liberalization and privatization of the cotton subsector drew heavily from earlier APRP and CSPP work and benefitted from reviews by Ron Krenz and by Helmut Schoen and Mohammed Abu el Wafa of CSPP. Edgar Ariza and Ken Swanberg of APRP/RDI also provided valuable input.

The author was assisted in his work by Sherif Fayyad, who helped to obtain data and prepare tabulations, and by Dalia Radwan, Flora Naiem and Yvonne Louis, who assisted in word-processing, report formatting, and table creation. MVE Chief of Party Gary Ender provided his usual incisive observations and comments. Dr. Adel Mostafa helped in obtaining important information and input on the cotton subsector.

EXECUTIVE SUMMARY

This paper reviews progress in liberalization and privatization in two key subsectors, cotton and rice, from 1996/97 to 1999/2000. It draws heavily on earlier and extensive work on both subsectors, although it does not attempt to summarize all the changes that have taken place. Rather, it presents selective evidence and interpretation of events to paint an overall picture of **steady though slow progress** in most areas.

The paper examines the degree to which policy reforms were achieved in key areas of the two subsectors, identifies what regulatory and policy barriers remain to complete liberalization, and suggests ways in which the reform agenda could be pushed ahead. The analysis of privatization efforts in both subsectors is somewhat less thorough, largely because access to firm-level data is so limited and the data that are available tend to be aggregated, not comparable to information from other countries (that comply with international accounting and reporting standards), and difficult to interpret. The absence of easily accessible economic and financial performance data is in and of itself a barrier to privatization; prospective investors have difficulty evaluating what they might be getting into.

Rice Subsector Liberalization and Privatization

Following significant liberalization of domestic rice marketing in the early 1990s, GOE efforts to complete the liberalization process during the late 1990s largely faltered. Evidence of the incomplete reform agenda is:

- Public and ESA rice mills paid producers premium prices in 1999/2000, using credit obtained early in the marketing season with holding company guarantees, to continue operating inefficient rice milling enterprises, likely in the red.
- Export subsidies for rice milled in public mills, in place since 1997, were paid to exporters for the 1996/97 season to offset public sector milling costs that exceeded private milling costs. It appears as if these subsidies will be paid for the 2000/01 season.
- APRP efforts to encourage the GOE to reduce the tariff on imported rice have not led to any change in the 20-percent tariff (plus 5 percent sales tax and 3 percent or so miscellaneous charges). The process by which tariff levels get reviewed and changed probably requires serious consideration. Lowering the tariff would encourage more efficient resource allocation by putting downward pressure on domestic paddy and rice prices, which in turn would lower returns to rice production and area planted to paddy.

An important measure to liberalize the rice subsector was undertaken during the early 1990s, which led to widespread entry of small traders into the domestic rice market. Farmers were allowed to sell their paddy to any buyer at freely negotiated prices, rather than being forced to deliver paddy (that was not home consumed) to public milling companies. This compulsory procurement system had made the public companies the predominant buyers during the 1980s (buying 42% to 50% of the national paddy crop), but the proportion of the rice crop that was procured by the public rice milling companies declined steadily from 1989/90 (42%) to a very low level by 1996/97 (estimated 2% of the crop). By 1995,

private investors, convinced of the sustainability of rice market reform, began to make significant investments in commercial rice mills, as well as smaller village mills. National milling capacity expanded quickly to the point where public milling capacity ended up comprising only 21% by the late 1990s. Private traders were also allowed to export rice in 1991/92, shipping 13.7% of the total exported that year. By the late 1990s, Egyptian rice exports were shipped predominately by the private sector (78.2% in 1997/98 and 89.1% in 1998/99).

The Rice and Flour Milling Holding Company, not content to let public mills stand idle, intervened in the rice market beginning in 1997/98 in ways that negatively affected private traders and millers. Public mills bought large quantities of paddy in 1997/98 (517,600 mt), only about 90,000 mt in 1998/99 year, and then an estimated 402,789 mt in 1999/2000. Uncertainty about the paddy buying intentions of the public and ESA rice mills, now managed by the Food Industries Holding Company (FIHC), still cloud the domestic rice market. Private traders and millers did not know, in the fall of 2000, the extent to which the public and ESA mills would be in the market, the prices at which they would be buying, and how much paddy they would buy (a function of finance obtained for them or guaranteed by the FIHC). Aggressive early-season purchases of over 400,000 mt of paddy in 1999/2000 by public and ESA mills pushed opening paddy prices much higher (> LE 600/mt) than they would have been had the public mills not obtained this credit.

A key issue related to credit access is whether the ESA mills would have been able to obtain credit from the banks without a holding company guarantee. Since 1997/98, when credit for the public mills was obtained at below-market interest rates, the public and ESA mills have paid market rates. It is not clear how creditworthy these mills are, and it is unlikely that the banks did any rigorous financial analysis to determine credit-worthiness. Hence, the relatively easy access of public and ESA mills to large amounts of credit can be viewed as preferential treatment by the banks.

By summer 2000, paddy prices had dropped to far lower levels (LE 400-500/mt). This sharp price decline late in the marketing year suggests that the summer 1999 paddy crop was larger than announced by the MALR, leading farmers and traders holding stocks to dump them on the market before the large new crop was harvested. It also implies that public and ESA mills bought paddy, during the fall of 1999 (early in the marketing season), at price levels well above what they would have been on the open market during the peak sales months of September-December 1999 had these mills not obtained so much credit so easily and early in the season. Note also that senior GOE officials declared that 1999/2000 paddy prices to farmers should open at a minimum of LE 600/mt. These types of announcements, and public sector intervention in the market to maintain high paddy prices in 1999/2000, were inappropriate signals to the domestic rice trade and uses of scarce GOE resources, constituting a form of market manipulation. For a supposedly liberalized subsector, these types of policies are ill-considered and tend to de-stabilize the market.

It is difficult to evaluate how successful privatization of public rice milling companies has been. Following unsuccessful attempts to privatize public rice mills through tenders in 1997, designed to elicit anchor investors, privatizations in the form of ESAs were quickly consummated in 1998. The ESA privatizations will result in a gradual transfer of control from the Holding Company to the new owners, employees and managers of the former public companies, on 10-15 year installment plans. The financial

performance of the rice milling enterprises of public and ESA rice milling companies is unknown, although ESA mills with macaroni plants and feed mixing units appear to be doing well financially (in the aggregate, across the different units). The public and ESA companies bought little paddy in 1998/99, but they intervened in a major way in 1999/2000, putting upward pressure on domestic paddy prices. Of the 402,789 mt of paddy bought by the ESA and public mills, nearly half (48.4%) remained in storage by the end of the 1999/2000 milling season. Rice prices had dropped to market-clearing levels that were too low for the ESA and public mills to break even after milling and selling the rice. **The competitiveness of the public and ESA rice mills is assured through easy access to credit, cross-subsidization of rice milling enterprises by macaroni or feed mixing enterprises owned by the same companies, or granting exporters who use public and ESA mills to process their rice an export subsidy (of LE 50/mt).** This is an artificial competitiveness, however, maintained through policies and financial (banking) advantages. This does not lead to the level playing field needed to encourage the most competitive and efficient rice marketing and processing system, or to ensure the best use of scarce public and financial resources.

Cotton/Textile Subsector Liberalization and Privatization

The cotton/textile subsector represents a complex set of agricultural production, marketing, first processing (ginning), exporting, and industrial transformation (spinning, weaving, knitting, RMG making) activities. There have been more policy benchmarks targeting the cotton/textile subsector under APCP and APRP than any other subsector or policy area.

There have been quite a few positive achievements in cotton/textile subsector liberalization and privatization:

- Three laws were enacted in 1994 that opened up the seed cotton trade and lint cotton export to private companies. **By 1999/2000, private traders were buying 44.7% of the seed cotton crop**, up from virtually nil in 1996/97. **The private sector export share reached 25% in 1997/98 and 1998/99** (though it declined to 14.5% in 1999/2000), rising from only 3.3% in 1995/96. This has put competitive pressure on the public cotton trading companies, leading to some selling of lint cotton below minimum export prices and attempts to differentiate product (lint for export) on the basis of quality (grade and cleanliness), baling (UD bales), and foreign customer responsiveness.
- **Two of five public sector ginning companies were privatized in 1996/97.** These companies are operated under private management and ginned 38.5% of the seed cotton crop in 1998/99. A third firm, Nefertiti, operated one private gin in 1998/99 and captured a 1.1% market share, giving the private sector a combined 39.6% share. Administrative allocation of market shares to the five (public) ginning companies has been replaced by a more competitive system where quality ginning services, timeliness of service, sharing of transport costs, and some price cutting are used to capture greater market share (within the limits of the one gin/one variety policy of MALR).

- **One private ginning company, Arabeya Ginning, has been an industry leader in investing in improved seed cotton cleaning facilities, upgrading gins, and introducing *farfarra* rooms at gins and UD bale presses.** This has encouraged the other private ginner (Nile Ginning) and public ginning companies (particularly Delta Ginning Company) to make similar investments that lead to higher quality ginned output. Arabeya Ginning has also successfully shed most of its redundant labor through early retirement incentive buy-outs, as well as closed three old, small gins in congested urban areas.
- The election of ten private sector members to the ALCOTEXA Management Committee in late October 2000 may signal the end of public sector dominance of decisions affecting export prices and rules (as of January 2001). Until then, chairmen of the six public trading companies dominated the Management Committee and held the key ALCOTEXA leadership positions.
- **Privatization in the spinning industry has included two sales to anchor investors, leases of one or more units of five other companies, and ongoing attempts to sell well-performing public spinning companies with good equipment.** One privatized company, Alexandria Spinning and Weaving, has raised the average count of yarn it spins and improved its financial performance. Since 1994/95, there has also been significant private investment in one ring spinning operation (Alcan Manai) and nine open-end spinning factories. Two other companies report plans to establish other ring spinning plants. The new spinning units are more productive and efficiently run than nearly all of the public sector spinning companies.

Despite these significant achievements in liberalizing and privatizing the cotton subsector, the subsector remains rather highly controlled, with the GOE continuing to intervene, as of late November 2000, in:

- determining which varieties must be grown in which production zones;
- reversing progressive removal of subsidies on MALR-provided cotton pest control services in 2000;
- determining which gins can gin which varieties (only one per gin), though allowing some competition for ginning business within this restriction (gins permitted to gin particular varieties can compete among themselves for market shares);
- setting seed cotton prices paid to growers, and maintaining too small price differentials between grades of the same variety to provide growers with sufficient incentives to strive for higher grades in production, harvesting and handling;
- allocating PBDAC-run sales rings, the dominant venue for buying seed cotton, administratively, and reversing steady progress in increasing the private share of sales rings in 2000/01 with a system that penalized the established private sector buyers;
- adhering to the principle of one buyer per PBDAC-run sales ring, with cotton bought at administered prices and the buyer forced to accept all the seed cotton delivered, regardless of its grade;
- setting into-spinning mill lint cotton prices;
- owning about 60% of domestic ginning capacity (with no apparent urgency to privatize this remaining capacity, despite initial success with two privatizations in 1996 and 1997);

- owning and managing the activities of six public sector cotton trading companies, who have exported over 70 percent of total cotton lint exports during the four completed marketing years of APRP (through 1999/2000, a year when the public share reached 85.5%);
- forbidding exports of popular, exportable long-staple varieties during certain periods in 1999/2000 (in order to meet domestic spinners' requirements), and establishing export quotas by variety in 2000/01;
- owning and continuing to operate (largely in the red) public sector spinning companies that dominate the domestic spinning industry, and ensuring that the larger public spinners (with the highest volume of output) have preferential access to Egyptian cotton lint;
- influencing yarn export prices and the allocation of yarn export quotas to individual firms;
- controlling most imports of cotton lint and their allocation among largely public companies, joint investment companies, and former public companies (two large privatized companies); and,
- influencing lint cotton export price levels, although nominally this is the prerogative of ALCOTEXA, a cotton exporters' trade association comprised of representatives of both public and private companies.

Furthermore, the significant expansion in private sector investment in knitting, apparel production and RMG manufacturing has been driven by policy exceptions, the duty drawback and temporary admission systems, which exempt exporters of these textile products from paying duty on cheap imported lint. These export-oriented firms are using mainly yarn spun from short staple cotton imported from India and Pakistan (with significant increases in imports of Syrian yarn in 2000). The duty drawback system has resulted in a shift during the 1990s to the predominance of knits, apparel and RMGs in export value shares by the end of the decade, representing only 21.4% in 1990 but 65.5% in 1999. This export success has come at the expense of Egyptian yarn, which is costly relative to cheaper imported yarn. Pricing policies for domestic seed cotton, cotton lint sold to domestic mills, and exported lint have contributed to the choice, by these export-oriented knitters and makers of apparel and RMGs, not to use Egyptian yarn.

An underlying problem in liberalizing the cotton/textile subsector has been the absence of an overarching GOE vision for reform and a comprehensive plan for implementing and sequencing reforms. To be fair to the GOE, policy reform of complex subsectors is a messy business—a little science (based on lessons from other countries), a lot of political economy (balancing off interests of competing stakeholders), and mainly an art. There is no easy-to-follow blueprint for reform. Nevertheless, the author concludes that cotton subsector policy and regulatory reforms have generally been piecemeal, *ad hoc*, and uneven across segments or industries of the subsector and across policy domains (e.g., varietal choice; pest control; import procedures; etc.). It is extremely difficult to move the policy agenda forward at exactly the same pace in all areas of a subsector to minimize distortions, rent-seeking opportunities, hardening of the positions of well-entrenched vested interests (leading to intransigence towards further reform), and the emergence of binding constraints to reform caused by too slow movement forward in one or two critical policy domains. Nevertheless, the author concludes that the GOE could have moved ahead faster and coordinated the complex program of policy reform across the subsector better.

The results obtained to date are somewhat disappointing in light of the sizeable USAID resource outlays tied to accomplishment of the many benchmarks targeting the cotton/textile subsector.

However, in the Egyptian political economy context of gradualist reform, the first (nearly) fifteen years of cotton subsector liberalization have been paced about right. The next 5-10 years of increasing globalization of world markets (commodity, currency, financial, information) and falling trade barriers will most likely force upon Egypt and the GOE a set of increasingly difficult policy choices. These choices will need to be made in more rapid succession and probably under more intense economic and political pressures than those made during the previous 15 years of gradualist reform, which were dominated by half-measures designed not to harm any one stakeholder too much. Furthermore, GATT/Uruguay reforms were designed not to hurt domestic producers of lint, yarn, fabric and RMGs during the first six years (1995 through 2000) of progressive lowering of tariff levels. Starting in 2001, the GATT tariff agreement rules will compel Egypt to lower duties on imported yarn and fabric below current protectionist rates to levels that will affect the domestic textile industries. Quantitative restrictions on RMG imports will also be converted to tariffs.

As pressures to become more internationally competitive mount, **tradeoffs will clearly need to be made among competing interests and priorities:**

- Will the GOE continue to administratively allocate shares of the domestic seed cotton market to public and private firms through the system of PBDAC-run sales rings?
- Will the GOE periodically intervene to administratively allocate shares of Egyptian cotton lint for export and to the domestic spinning industry, rather than let market forces determine this allocation?
- Will ALCOTEXA be encouraged to price cotton lint varieties competitively in a way that preserves Egypt's eroding world market share for ELS and LS cotton?
- Will the GOE continue to saddle failing public spinning companies with high-cost domestic lint that ends up being spun sub-optimally (to lower counts than desirable or feasible)?
- Will struggling public textile companies be allowed (and subsidized) to operate well below their original installed capacities, accumulating losses and inventories, and continuing to pay salaries of numerous redundant workers?
- Will import of cotton lint (other than Sudanese *acala*) and its distribution to domestic mills remain largely the preserve of the public sector (SWRMC-HC)?
- Will the GOE continue to allow the booming RMG and knit export segment to operate under a different set of rules—the duty drawback and temporary admissions systems for imported yarn? This would probably lead to leakages of cheap imported yarn into the saturated domestic market. These exceptions would also allow private textile export businesses to out-compete public and private companies that do not benefit from the privilege of not paying duties or that use Egyptian lint.

1. INTRODUCTION

This paper represents an attempt to summarize progress to date in liberalizing and privatizing four key commodity subsystems in Egypt's agricultural economy: rice, cotton/textile, wheat, and fertilizer. It also seeks to identify remaining challenges and obstacles to liberalization and privatization.

The paper is largely a set of interpretive essays, which draws on earlier, more detailed studies and on the judgments of the analysts who have written the interpretations. Where possible, we have referenced earlier work rather than re-iterating it. The paper draws heavily from the four MVE Unit verification reports, the *MVE Baseline of APRP Progress Indicators*, the MVE baseline subsector studies (as part of MVE's impact assessment program), numerous RDI, FSRU (IFPRI) and CSPP studies, and several MVE special studies. It also draws from MVE, CSPP and RDI interviews and interview notes, as well as ongoing discussions with GOE policy-makers and their advisors and leading APRP and CSPP analysts.

The organization of each chapter on commodity subsectors is as follows:

- ? brief summary of accomplishments under APCP
- ? more detailed assessment of accomplishments under APRP, keyed to the policy benchmarks
- ? discussion of the private sector's response to the policy benchmarks and overall GOE progress in liberalizing and privatizing the subsector
- ? an interpretive summary of lessons learned and remaining challenges to completion of the policy reform and privatization agendas

The reader will note that the chapter on the cotton/textile subsector is longer than the chapter on the rice subsector. This reflects the relative importance of that subsector in the APRP portfolio and the number of policy benchmarks related to liberalization and privatization of that subsector. The cotton/textile subsector receives the longest and most detailed treatment, because its reform has been the subject of many benchmarks, particularly during the first three APRP tranches, and its liberalization has been the most challenging. The rice subsector chapter is briefer partly because there have been fewer APRP benchmarks, but also because a recent *Rice Subsector Update* (Holtzman et al., Jan. 2000) provides a lot of detail and analysis on policy-related developments during the 1998/99 marketing season and for the first five months of the 1999/2000 season.

Finally, *it is important to note that there have been lagged effects of implementing the APCP policy reforms*. Both rice and fertilizer were the subject of many benchmarks and significant policy reform under APCP from 1991 to 1996. Although there have been fewer benchmarks related to rice and fertilizer under APRP, the reforms implemented under APCP continue to have an important impact under APRP, and market interventions made since the close of APCP affect the behavior (and profitability) of private firms, the continued operations of public sector companies, and the performance of those subsectors under APRP.

2. RICE SUBSECTOR

2.1 Summary of Benchmarks under APCP and APRP

Under APCP, there were three benchmarks designed to reduce progressively, over three tranches (4-6), farmers' mandatory deliveries of paddy to the GOE (see Goldensohn, 1998). The latter two benchmarks also "relaxed" and then "eliminated" GOE restrictions on storage, milling, transport, and marketing of rice by the private sector. By the end of APCP, these benchmarks had been accomplished. By 1996, farmers were free to sell their paddy to the highest bidder, and a vibrant private sector rice trade and milling industry had emerged. Public sector rice mills were still actively procuring and milling paddy through 1995/96, and competing with the private sector, although their share had dropped steadily from 1989/90, when it was 42.3% of the paddy crop, to 12.2% in 1995/96.

By the beginning of APRP in 1996/97, USAID and GOE attention shifted to completing the market reform agenda and privatizing public sector rice mills. In light of significant private sector investment in trading, milling and exporting and a perceived enhanced competitiveness of the Egyptian rice subsector, USAID and GOE agreed to (but did not actually) open the Egyptian rice market somewhat to international competition by lowering the tariff on rice imports. As area cultivated to paddy steadily rose during the 1990s, largely at the expense of cotton, policy-makers became concerned about the heavy demands that larger paddy crops placed on irrigation water. GOE announcements of mega-irrigation projects in the New Valley (Toshka) and Northern Sinai only heightened these concerns. In response, the GOE and USAID designed benchmarks to coordinate and reduce water deliveries, over time, to the paddy crop through a two-pronged strategy of improving irrigation system efficiency and management and introducing short-season, high-yielding paddy varieties.

Under APRP, policy benchmarks related to the rice subsector have fallen into five groups:

Table 2-1: Classification of Rice Subsector Benchmarks under APRP

Benchmark Category	Tranches				Total
	I	II	III	IV	
Market Liberalization	2				2
Privatization of Public Rice Mills	2	1	1		4
Reduction of Tariff on Imports		1	1		2
Water Savings in Rice Cultivation	2	1	1	1	5
Support Institutions & Services	3	3	3	4	9

The benchmarks in the first four categories are directly related to the rice subsector. The benchmarks in the fifth category, support institutions and services, are not focused on the rice subsector as such but

are likely to have an indirect impact. This latter category includes benchmarks that are designed to strengthen public provision of research and extension, irrigation advisory and support services, market information, data collection, and policy analysis, as well as private sector advocacy (empowering commodity export associations). In addition to the policy benchmarks, APRP has provided post-privatization support to the six ESA rice mills in the form of workshops on management and employee roles and responsibilities and corporate governance since late 1998.

2.2 Major Reforms Completed

In successive verification reports, MVE considered many APRP benchmarks related to the rice subsector to be fully accomplished. All of the benchmarks related to water savings and support institutions were considered accomplished, with the exception of the research and extension benchmarks, judged partially accomplished. Note, however, as a general observation that public sector services to the rice subsector (and other commodity subsystems) require further and significant strengthening.

2.2.1 Privatization of Public Rice Mills

The rice mill privatization benchmarks in Tranches I and II were judged partially accomplished. *GOE privatization efforts of 1997 and 1998 were too little and too late, as massive private sector investment in rice mills came on stream during the mid-to-late 1990s*, quickly following the rice market liberalization measures of APCP, and as the GOE was slow to offer public mills for privatization. GOE failure to interest private investors in the public sector mills led the MPE to go the ESA privatization route in 1998 and 1999, privatizing six milling companies.¹

APRP/RDI has provided valuable post-privatization support to the ESA rice mills in 1998-2000, requested by MPE. Its effect has been hard to gauge, however, given the intervention of the Rice and Flour Mills Holding Company (RFM-HC) in the affairs of the ESA companies up to mid-December 1999, at which point it was merged into the Food Industries Holding Company.² What can be said is that the six ESA mills and two remaining public sector mills have operated well below their large installed capacity during the past several years. They also have redundant labor which is not productively utilized.³ RFM-HC guaranteeing of bank loans to these mills in 1999/2000 enabled them to procure about half a million tons of paddy for processing at prices ranging from LE 600 to 700 per mt, well above early season 1998/99 levels. Whether these mills were able to mill this paddy and dispose of it profitably was an open question for the 1999/2000 season. The fact that the FIHC does not publish or release information about

¹ The MPE received a few private sector offers to buy public sector rice milling companies, but they were judged to be inadequately low. Hence, no sales were consummated with private anchor investors.

² The Food Industries HC has not yet made public its strategy for managing the public sector and ESA rice mills.

³ Note that the labor force has declined over time in the public sector and ESA rice mills, as workers have retired, been re-assigned to non-milling enterprises, and been offered some early retirement incentives.

the activities and ESA rice mills contributes to non-transparency about the operations of a significant proportion of the rice milling industry.

2.2.2 Rice Tariff Reduction

The tariff reduction benchmarks of Tranches II and III were also determined to be partially accomplished. The failure of the GOE to reduce the tariff in modest increments, as agreed in two Memoranda of Understanding in successive tranches, was disappointing. GOE inaction on this issue in 1998/99 contributed to the “rice crisis” of April-May 1999, as a short 1998 rice crop led to stronger than usual seasonal price rises, evidence of scarcity. Had rice imports been allowed to enter at a duty lower than 20 percent, private importers would have imported medium-grain rice earlier than the summer of 1999 and most likely headed off the crisis (see Holtzman et al., 2000).

In February 2000, however, rice tariff reduction was back on the reform agenda. The Minister of Economy and Foreign Trade requested information from APRP/RDI to support reducing the tariff to zero percent on imported bulk and bagged rice. APRP is advocating that imports of specialty rice, such as *basmati* and Uncle Ben’s parboiled rice, remain subject to a 20% duty, since these are luxury items destined for high-income consumers. The Minister of MEFT put the rice tariff issue on the agenda of the High Council of Customs Tariffs, which meets periodically under the leadership of the Ministry of Finance. There is no evidence that the High Council has addressed the rice tariff issue, however.

2.2.3 Liberalization of the Rice Subsector

The benchmark calling for “complete liberalization of the subsector” in Tranche I was considered nearly accomplished, as a handful of existing and potential policy distortions remained. An export subsidy, designed to benefit public millers, was put in place in 1997 and paid to exporters for rice exports during the 1996/97 season.⁴ Regulations regarding paddy and rice imports were not entirely transparent, and many private sector operators perceived such imports to be illegal in 1996/97 and 1997/98. Rice grades for the domestic and export markets diverged and could potentially make it difficult to import cheap rice, which has a higher proportion of broken than most Egyptian rice (see Ouédraogo and Abdel-Rahim, 1997). The domestic grades, based on the higher quality output of public mills, were not really enforced, as many small village mills and smaller-scale commercial mills produced lower quality output, with a high proportion of broken (> 20%). There were also allegations that PBDAC restricted private rice trader access to credit (for working capital) and storage (of paddy) in its vast network of *shona*.

Three years later in 1999/2000 it appeared as if these same issues were dormant but potential policy problems. Rice imports were allowed in June/July 1999, however, although such imports will only take place under exceptional circumstances—when domestic rice prices are unusually high, as in the spring and summer of 1999. PBDAC has very little evidence of private traders taking out loans to buy and store rice, and no evidence of storage of paddy or rice by private traders as of late 1999. Grades remained unenforced, but this created no particular problems for rice traders, millers, or importers. The RFM-HC announced on 3 October 1999 in Al Ahram that the public and ESA mills would mill paddy in large

⁴ MEFT sources report that rice export subsidies of LE 6.2 million were paid to exporters who had paddy milled in public mills in 1996/97. The average subsidy was LE 50/mt of milled rice.

volumes for LE 35/mt, which is well below their real costs of operation. MVE lacks data on whether any traders or exporters took advantage of this discount.⁵

2.2.4 Policy Advocacy by the Rice Industry

APRP/RDI is providing support to commodity associations, including the nascent Rice Federation. The Federation made a tactical error in trying to become legally approved, by the People's Assembly, as a Union, which requires a separate law. This is difficult to do and has been stymied. Under Law 153, it is relatively easy, however, to form an association or other NGO. If the Rice Federation were to drop its quest to become a Union, it could be approved as a trade association quickly. An association has less power to influence prices and trade than a union, but it can still play a consultative and advisory role to policy-makers, though in the case of rice, the Federation competes with the Rice Branch of the Egyptian Federation of Industries.

Without formal approval of the Rice Federation as a Union, the rice industry should be able to advance its policy and regulatory reform agenda through the Agricultural Commodity Council, although the Council covers a wide range of agricultural commodities. Formal constitution of the Rice Federation as a registered trade association (with the Ministry of Social Affairs) would be a welcome development. *Note that there is a Rice Subcommittee of the ACC* (see Amer Moussa and Aya Karim, 2000). This subcommittee, comprised of exporters and millers, has met several times, including once at APRP in early September 2000. The private rice industry provided input on the characteristics of different paddy varieties, particularly related to appearance, millability and consumer acceptance, to MALR officials at this meeting.

The Cereals Industry Chamber (Rice Branch) of the Egyptian Federation of Industries has made some progress in trying to form a Rice Trade Association. A formal plan has been developed and reviewed by an attorney. It would represent exporters and millers, but not producers, rice coops, or domestic (only) traders.

⁵ Note that even private sector commercial mills reported average operating costs of LE 37-38/mt in 1997/98 and early 1998/99. If these private millers took investment costs into account, per ton milling costs would be much higher. Public milling costs are clearly higher. As long ago as 1994/95, public sector milling costs were LE 59/mt and LE 95/mt for milling and polishing. (See Ragaa El Amir et al., 1996).

2.3 Private Sector Response to Reforms

2.3.1 Producer Response and Shifts to Short-Season Varieties

APCP policy reforms that permitted farmers to choose which crops to grow allowed farmers to consider rice in their summer crop mix. Area planted to paddy rose steadily from 1990 through 1997, followed by a dip in 1998 but record-high paddy area in 1999 and 2000. Egyptian farmers responded to relaxing and removal of mandatory deliveries by selling an increasing proportion of their paddy to private traders at negotiated prices beginning in 1992/93. Public sector mills, which offered lower fixed prices for paddy, lost market share to private traders and millers, who procured the vast majority of the commercialized paddy crop by the late 1990s.

MALR and MWRI collaboration in introducing short-season rice varieties in six irrigation command areas in the Delta has proved to be fruitful. Producers in contiguous irrigation blocks have had to coordinate planting and harvesting of the same short-season, high-yielding varieties in order to economize on irrigation water. By cultivating short-season rice, farmers realize water savings of 13 percent on paddy. More importantly, Egyptian agriculture realizes considerable water savings at the national level. The paddy harvest takes place 25-30 days earlier than for the older, longer-season rice varieties. This does not allow for planting of another crop, such as vegetables, but it may enable earlier planting of a winter crop, such as wheat, berseem or fava beans.⁶ At the national level, short-season rice was planted on 70 percent of the area cultivated to paddy in 1999.⁷ These varieties have been rapidly introduced since 1995, when they covered only 5 percent of total paddy area.⁸ The well-coordinated introduction and diffusion of these varieties has been truly impressive and is a laudable success story for Egyptian agricultural research and extension.

2.3.2 Private Investment in Rice Trading and Milling

As noted above, *private entrepreneurs welcomed APCP reforms by investing enthusiastically in paddy and rice trading and in rice milling.* There are estimated to be nearly 10,000 people working in the private rice trader (see *Rice Subsector Baseline Study*). Entry barriers to rice trading are low;

⁶ MVE has no evidence that the early harvest date for short-season rice varieties has enabled farmers to plant the winter crop earlier.

⁷ The short season rice varieties include Gizas 175, 177, and 178, as well as the Sakha series (101-104). A short-season variety is defined as any variety maturing in less than 145 days, required for Gizas 176 and 181. Gizas 171, 172 and 173 require 155 days to mature.

⁸ Two short-season varieties that did not figure prominently by the second half of the 1990s, Giza 175 (125 days) and Philippino rice (IR 28, 125 days), were cultivated more widely in the first half of the 1990s. In 1990, they combined for 131,263 feddans, equal to 12.7% of the total area planted to paddy. While area to these two varieties dropped steadily in the early 1990s, area to the popular long-season varieties, Gizas 171 and 173, rose strongly from 1990 to 1995. Area planted to Giza 172 fell, but overall area to long-season varieties (Gizas 171, 172, 173, 176 and 181) went from 86.6% in 1990 to 95.5% in 1995.

traders can rent transport and storage facilities, and they can rotate a modest amount of working capital quickly (and minimize storage periods and costs). Trading on a larger scale and storing rice inter-seasonally (over 4-8 months) require greater working capital over the short to medium term. Investments in rice mills tend to be costly long-term investments. Larger-scale commercial rice mills of 40 mt/day capacity or more cost at least several hundred thousand Egyptian pounds (for a minimal contingent of cheaper Chinese equipment and building) and can cost well over one million Egyptian pounds (if European or Japanese equipment is purchased, or a sortex-type of machine is added to a production line).⁹ Medium-scale rice mills, generally using Chinese and Korean milling equipment with some locally fabricated sieves, pipes and storage bins, typically cost 30,000 to 100,000 LE. Small-scale village mills, which typically use a single-pass, one processing step technology, cost far less, typically no more than a few thousand dollars. Investments in all three types of mills increased dramatically in the mid-to-late 1990s, with commercial milling capacity (large- and medium-scale private mills) growing faster than village mills, albeit from a far lower base. The largest increase in private sector milling capacity took place in 1995 and 1996, when 59.5 percent of capacity in place early in the 1998/99 marketing season (by December 1998) was established.

2.4 Unfinished Business: Lower the Tariff on Imported Rice

The biggest risk to staying the agricultural policy reform course in Egypt in recent years has been perceived crises that lead to GOE back-sliding. The cotton, fertilizer, and rice subsectors have all fallen victim to such crises and GOE counter-reform measures.

The rice crisis of the spring of 1999 had less negative consequences than the fertilizer crisis of 1995/96 and the on-again, off-again liberalization of cotton marketing and export since 1994/95. The high rice prices of April-June 1999 mainly affected consumers. As rice prices rose, poorer households most likely shifted their purchases of starchy staples to *baladi* bread, pasta, potatoes, and cabbages. Commercial rice millers and exporters faced high into-mill wholesale paddy prices and ex-mill white rice prices, which slowed down milling operations and led to a virtual shutdown of rice exports by late May 1999.¹⁰ Small- and medium-scale millers who do custom milling for traders and producers, and who buy smaller quantities of paddy on their own account for milling and quick sale (with minimal storage of the milled rice) were less affected by the high paddy and rice prices, though their operations also typically slow down by May-June of the marketing year (7-8 months after harvest). As mentioned earlier, *a lower tariff would have permitted earlier import of Chinese or other medium-grade rice, which would have dampened price rises in the spring of 1999 and defused the crisis.*

⁹ Sortex is an English manufacturer of a high-end milled rice sorting machine that removes broken and immature and damaged grains. It costs upwards of LE 600,000. Cheaper Japanese imitations cost a little more than half that much.

¹⁰ GOEIC rice export data show that exports as of the end of January 1999 were well ahead of exports from the record export year of 1997/98 by the same point in the marketing season. The comparative figures were 189,747 mt as of 30 January 1999 and 124,131 mt as of 30 January 1998. At this point in the season, it appeared as if exports in 1998/99 would once again set a record.

The 1998/99 rice marketing year was also instructive in illustrating *that government statements, however well intended, can affect market psychology and behavior*. Perceiving producer paddy prices (and returns) to be too low in the fall of 1998, Prime Minister El Ganzouri proclaimed in December 1998 that paddy prices should be no lower than LE 600/mt, much to the distress of private traders and millers. This announcement, along with a tightening of paddy supplies due to a short 1998 crop, contributed to the stronger than normal seasonal run-up in paddy and rice prices in the first half of 1999. Another set of announcements, made mainly by former Minister of Trade Goueli about imminent and massive rice sales to Indonesia (of 400,000 to 500,000 mt), also contributed to the rice crisis by influencing market psychology. Although there are no data to confirm this hypothesis, the export announcements may have influenced traders to buy paddy for storage and later sale at higher prices. These traders, hearing about GOE announcements of export orders that would double Egyptian rice exports in 1998/99 over the record previous marketing year (409,200 mt in 1997/98), anticipated strong export demand and strongly rising prices.¹¹ Clearly, the GOE's heart was in the right place, wishing to protect producers with a minimum paddy price and to provide good news, during a period of continual bleak news about the highly negative current account balance, about an impending export deal. Such announcements can and do move markets, however, often with unfortunate and unintended consequences.

The remaining *tariff barrier* of 20 percent, plus a five percent sales tax and miscellaneous fees amounting to another three percent, provides a high level of protection to local producers and millers. It also *exaggerates or inflates the private, financial profitability of growing rice*, a high water-consuming crop, at the expense of other crops that likely have a higher social profitability.¹² Furthermore, successively larger paddy crops during the 1990s, GOE delays in privatizing public rice mills, and high world prices during much of the second half of the 1990s of competing medium- and short-grain rices (of comparable or better quality) have led to an over-investment in private milling capacity. *The exaggerated private profitability of paddy cultivation has induced excessive private investment in rice milling capacity*. Tariff barriers have protected local producers and processors, allowing them to operate less efficiently than they might if rice could be imported with no tariff or a modest tariff. The greater potential for imports, afforded by a lower tariff, would dampen domestic paddy and rice prices, leading to a (socially desirable) reduction in area planted to rice, less (excessive and socially undesirable) investment in rice milling capacity, and lower consumer prices for rice, which would benefit poor consumers in both rural and urban areas.¹³

¹¹ Private rice exporters were skeptical of the GOE announcements and realized that the Indonesian Government was searching out the cheapest source of rice, which was not short-grain Egyptian rice. Indonesia wanted to import rice at prices below \$300/mt, which was well below the level that Egyptian exporters were willing to receive

¹² Area planted to cotton in 1999 fell below 700,000 feddans, the lowest level during the entire 20th century. It fell further to just over 500,000 feddans in 2000.

¹³ As discussed in the *Rice Subsector Baseline Study* (see Chapter 4), estimated per capita rice consumption increased most markedly among consumers in Upper Egypt (both rural and urban) and in metropolitan centers (Cairo, Alexandria) from 1990/91 to 1997. Expenditure elasticities for rice exceed 0.21 for all groups of Egyptian consumers, with the elasticity for rural consumers in Upper

Under the scenario of increased imports, the imported rice would probably be cheap Chinese medium grain rice or possibly a cheap long grain alternative, such as Thai, Vietnamese or other Asian rice. These imports would likely be purchased by lower-income consumers, whose preference for higher-quality Egyptian rice would be muted by income constraints, which would lead them to buy the cheapest source of calories. Tracing this scenario to its logical conclusion, moderate levels of imports would allow for greater exports of high-quality Egyptian rice (or at least maintenance of recent export levels of 300,000-400,000 mt/year).

2.5 Level the Playing Field for Public and Private Millers

While the GOE delayed privatizing public sector rice milling companies, a huge private sector milling capacity came on stream from 1995 through 1998. Total private sector capacity in 1998/99 was equivalent to 78.6 percent of total capacity, comprised of commercial mills (300), cooperative mills (5), village mills (5,750) and tractor-powered mini-mills (2,100). Public sector milling capacity (including public and ESA mills) in 1998/99 was estimated at only 21.4 percent of total milling capacity, while it was an estimated 88.2 percent of total capacity in 1989 (see Holtzman et al., 1999).

Capacity estimates are instructive in showing the volumes of paddy that mills could theoretically process at very high utilization rates. Comparing capacity estimates for the ESA and public mills with actual utilization (paddy throughput) show significant unused capacity. In 1998/99, these mills only operated at 5.8 percent of their capacity. Capacity utilization for these mills was at least 29.7 percent in 1999/2000, assuming that the public sector and ESA mills milled all of the estimated 490,000 mt of paddy that they procured in the first quarter of the 1999/2000 marketing season. The RFM-HC guaranteed access to commercial credit for these public (and quasi-public) mills at the beginning of the 1999/2000 marketing season.

The public mills cannot compete with smaller-scale, less expensive, decentralized private mills, which have significantly lower operating costs (LE 35-40/mt of paddy, in contrast to estimates of over LE 100/mt for the public mills).¹⁴ If forced to compete without guaranteed access to credit and implicit or explicit subsidies, most of the public and ESA mills would collapse. At this point, the public sector mills provide redundant, unneeded milling capacity. While their closure would represent a “loss” of a significant earlier investment,¹⁵ and over 9,000 workers would have to be reassigned or retired,¹⁶ the

Egypt being the highest at 0.33. Furthermore, expenditure elasticities were higher among poor consumers than among non-poor consumers in both urban (0.32 vs. 0.17) and rural (0.40 vs. 0.23) areas. Note that these findings are drawn from the EIHS conducted by IFPRI and the MALR and the paper *Patterns of Food Consumption and Nutrition in Egypt* by Howarth Bouis, Akhter Ahmed and Akila Hamza (1999).

¹⁴ Operating costs are in large part a function of the volume of throughput. Higher levels of throughput lower per ton operating costs.

¹⁵ Nevertheless, sunk costs are just that--sunk costs. From an economic analysis standpoint, sunk cost considerations should not guide future decision-making regarding whether or not to continue a GOE processing operation. Social and political barriers to mill closures ensure that they are

public sector and ESA mills could go out of business without adversely affecting Egypt's capacity to mill its paddy crop. This statement can be made with confidence if it is assumed that Egypt's paddy crop will not exceed 6.0 mmt per year.¹⁷ Estimated *private sector* milling capacity was just over 6.0 mmt per year in 1998/99.

Early indications from the merging of the Rice and Flour Mills Holding Company into the Food Industries Holding Company, which took place in December 1999, are that no quick decisions will be made regarding the fate of the public sector rice milling companies. Having embarked on the ESA privatization path, the GOE, as the major shareholder (through the HC), will likely intervene to keep its investment operating. If the HC guarantees finance, as in 1999/2000, enabling the public and ESA mills to buy at least half a million mt of paddy per year, this will affect the private sector by reducing the utilization rates of private mills and depressing profitability in the industry.

2.6 Interactions Between Guaranteed Credit to Public Mills and Potential Negative Consequences of Tariff Reduction

Continuing to support the operation of the public sector mills may make it more difficult to lower the rice tariff, because this could lead to some closures of less efficient private mills. Some underutilized, larger commercial mills, are already at financial risk. *Removing the tariff completely could lead to mill closures and layoffs.* In a country where un- and under-employment are chronic problems, the latter consequence (layoffs) is anathema. The former consequence (mill closures) would send a negative signal to private investors, who made their investment decisions behind a high tariff wall, with the expectation that the tariff would remain at the same level, and to prospective investors, who could anticipate lower returns on milling than under tariff protection.

From an agribusiness investment standpoint, it would have been far more timely to lower the tariff on rice during the early to mid-1990s, before or near the beginning of the period of most intensive private sector investment. This tariff reduction and the threat of foreign competition could have moderated private investors' enthusiasm and restrained investment to a more sustainable and manageable level. National rice milling capacity would not have become so inflated as it had become by the end of the 1990s.

considered, however.

¹⁶ Employment in the public sector and ESA rice mills is less than 9,800 workers and declining. Maintaining employment is a key strategic consideration in privatization decision-making of the GOE, but it is noteworthy that public sector employment in rice milling is only a fraction of textile industry employment (5.6% of the 173,325 workers in public sector textile manufacturing companies in 1996/97). Total public rice mill workers are less than the employment of several large *individual* spinning and weaving companies, such as Misr Mehalla and Kafr El Dawar Spinning and Weaving Company.

¹⁷ The paddy crop of 1999/2000 was 5.6 mmt, a record crop on record area planted. The GOE strategy was to reduce area cultivated from the summer 1999 level of 1.56 million feddans. Preliminary estimates of the 2000/01 paddy crops are as high as 6.3-6.5 mmt. Most observers think that the paddy crop will be much smaller in 2001, as low producer prices early in the 2000/01 marketing season will encourage farmers to shift to cotton or another crop.

Hence, the timing of tariff reduction could have important implications for the sequencing of policy reform.¹⁸

2.7 Concluding Comments

This section on rice market liberalization argues that the process is not quite complete; GOE announcements of minimum paddy prices and planned exports to Indonesia—which failed to materialize—tended to destabilize the domestic rice market in 1998/99. The GOE's decision not to reduce the tariff in APRP Tranches II and III also contributed to the well-publicized rice crisis of May-June 1999. In addition, Holding Company brokering of finance for the six ESA mills and two public mills, which bought large quantities of paddy in the fall of 1999, made privatization of the ESA mills look like a hollow exercise. Finally, there is no evidence to date that the merging of the RFM-HC into the Food Industries Holding Company will lead to any quick or clear decisions regarding the fate of the remaining two public sector rice mills or any indications of how that HC will manage the six ESA mills. The continued operation of the public and ESA mills at 1999/2000 levels of capacity utilization in future years could put financial pressure on some private sector mills, lowering their profitability and forcing some closures.

¹⁸ The delay in privatization of the public rice mills raises another important sequencing of liberalization and privatization issue. If a government liberalizes, allowing for private sector entry, but waits too long to privatize, leading to significant private investment that replaces idled public sector processing capacity, it becomes increasingly difficult to privatize that public sector capacity. As a corollary to this, the longer public sector mills (of any type) remain idle, the lower the probability that this capacity (or most of it) will ever be re-operated.

3. COTTON/TEXTILE SUBSECTOR

3.1 Summary of Benchmarks under APCP

Under APCP, there were 29 benchmarks directly related to cotton (see Goldensohn, 1998) and six others indirectly related to cotton:

- ? 1 free market benchmark, calling for cotton and other farm prices to more closely approach shadow prices
- ? 4 cotton pest management and control benchmarks
- ? 1 related to general restrictions on cropping patterns

3.1.1 Raising Producer Prices (and Incomes)

The benchmarks directly related to cotton were focused on raising producer prices closer to world prices and increasing charges to farmers for cotton pest control (provided by the GOE) from Tranches I through VI. *The GOE did succeed in increasing prices and returns to cotton growers from 1986/87 to 1995/96*, as shown by MALR estimates.¹⁹ Real producer prices per seed kantar nearly doubled from LE 98.7 in 1986 to LE 188.2 in 1996.²⁰ Net revenues per feddan rose, in real terms, more than four times from LE 204 in 1986/87 to LE 833 in 1996/97. With the exception of 1994/95, real returns to cotton production were high, relative to the 1980s, from 1992/93 through 1997/98. In 1998/99, however, real returns collapsed to late 1980s levels.

In raising prices, the GOE ended up subsidizing cotton growers by 1996/97. By 1994/95 seed cotton producer prices were 90 to 94 percent of lint cotton equivalent export prices. By 1996/97, seed cotton prices paid to producers were above lint cotton equivalent export prices by 7 to 34 percent, depending on the variety grown (see Holtzman with Mostafa, 1998). This resulted in a massive income transfer, through high producer support prices, from the GOE to growers, equivalent to at least 1.2 billion LE during two seasons—1996/97 and 1997/98 (see Table 3-1).

In convincing the GOE to move away from the low seed cotton producer prices that characterized the 1980s, APCP indirectly encouraged the floor price concept. The GOE miscalculated in early 1996 in announcing high support prices before planting and before world markets took a turn from exceptionally

¹⁹ The MALR data for gross and net returns to growing crops are estimates prepared by MALR. They are not generated annually through sample surveys and hence should be interpreted with caution. Nevertheless, they are based on synthetic crop budgets (averaged across farm types and sizes) and indicative. Note that an important Tranche IV policy benchmark of APRP is for MALR to improve data collection and analysis of crop production costs and returns.

²⁰ Real prices and returns are calculated by deflating the series, using the wholesale producer price index, where 1986/87=100. In other words, real prices and returns are expressed in 1986/87 constant prices.

high lint (export) prices to much lower price levels. After having proclaimed high producer prices for 1996/97, it became politically impossible to renege and later announce a lower

**Table 3-1: Calculation of Subsidies Paid to Producers of Seed Cotton,
1995/96 to 1999/2000**

Price/Cost Category	Unit	1995/96	1996/97	1997/98	1998/99	1999/00
Exchange Rate	LE/\$	3.38	3.39	3.4	3.41	3.42
Giza 75 Price to Farmers	LE/seed kantar	500	500	500		
Giza 86 Price to Farmers	LE/seed kantar	500	500	500	379	363
Lint Cotton Export Price	\$/lb.	\$ 1.10	\$ 0.94	\$ 0.89	\$ 1.00	\$ 0.92
Fobbing Cost	\$/lb.	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.12	\$ 0.10
Spinners' Price	\$/lb.	\$ 0.96	\$ 0.80	\$ 0.75	\$ 0.88	\$ 0.82
	\$/kg.	\$ 2.12	\$ 1.76	\$ 1.65	\$ 1.94	\$ 1.81
	\$/lint kantar	\$ 105.82	\$ 88.18	\$ 82.67	\$ 97.00	\$ 90.39
Into-Spinning Mill Lint Price	LE/lint kantar	357.7	298.9	281.1	330.8	309.1
		(441 decreed)				
Export Price	\$/kg.	\$ 2.43	\$ 2.07	\$ 1.96	\$ 2.20	\$ 2.03
	\$/lint kantar	\$ 121.25	\$ 103.62	\$ 98.11	\$ 110.23	\$ 101.41
Ex-Gin Lint Cotton Price	LE/lint kantar	409.8	351.3	333.6	375.9	346.8
Fixed Marketing Allowances	LE/lint kantar	59	59	59	60	50
Domestic Price (farmgate)	LE/lint kantar	350.8	292.3	274.6	315.9	296.8
Adjust for Ginning Out-turn, 115%	LE/seed kantar	403.5	336.1	315.7	363.6	347.3
Value of Seed & Scarto	LE/seed kantar	79.0	79.0	65.0	62.5	56.9
Value of SC at Farm Level	LE/seed kantar	482.5	415.1	380.7	426.1	404.2
Subsidy to Farmer	LE/seed kantar	17.5	84.9	119.3	-47.1	-41.2
Size of Seed Cotton Crop	Mill. seed kentars	4.062	5.700	5.842	3.985	4.091
Total Cost of Subsidy	Million LE	71.2	483.9	696.7	0.0	0.0

Sources: CIT-HC, ALCOTEXA, Various reports by R. Krenz et al., 1997 to 2000

Notes: 1) The benchmark variety to 1997/98 was Giza 75. It became Giza 86 as of 1998/99.

2) Calculation of the total subsidy cost is crude, because it assumes the entire crop was one variety.

3) Ginning out-turn is 115% for all years, except 1999/2000, when it was 117%.

4) The Giza 86 producer price for 1998/99 is for grade G/FG, while it was for grade Good+1/8 in 1999/2000. The 1998/99 price was higher than the average attained by growers, most of whose cotton was not graded G/FG. The 1999/2000 price is more realistic, reflecting the average grade.

5) The Giza 75 producer price was for grade good in 1995/96 & 1996/97, and for grade G/FG in 1997/98.

6) The fixed marketing allowance does not necessarily reflect real marketing costs. It probably reflects approximate marketing costs of public sector trading companies (plus a mark-up), though private companies are likely able to perform marketing services at lower costs.

support price. Once the high floor prices had been announced and later paid to producers in 1996/97, the GOE found it difficult to reduce those floor prices very much in successive years. In 1997/98, domestic seed cotton prices remained equally high relative to world prices due to continued high floor prices, which were adjusted downward marginally through raising the grade and out-turn required for growers to receive the same levels of prices as in 1996/97. Yet in 1998/99, prices to farmers were reduced to the point where the subsidies were removed. Seed cotton prices were calculated based on opening ALCOTEXA lint export prices in September 1998. Farmer dissatisfaction with low returns in 1998/99 led the GOE to announce that it would pay seed cotton prices equivalent to 1998 in 1999/2000, even though world market conditions had further deteriorated and international prices were soft. This led to the need to subsidize domestic producers again, and the GOE announced that LE 200 million was earmarked for the Cotton Stabilization Fund. The actual magnitude of the subsidies will probably be approximately LE 61 million in 1999/2000.²¹ While this sum is small compared to the subsidies paid in 1996/97 and 1997/98, it is not insignificant.

3.1.2 Reducing GOE Subsidies to Farmers on Pest Control

The GOE was less successful in accomplishing benchmarks related to the cotton pest control charges that were designed to phase out and eventually eliminate the government subsidy to growers. In the first Tranche VII report, Krenz (June 1995) reported that the total subsidy costs rose from LE 155.2 million in 1990 to LE 215.0 million in 1992, remained near LE 200 million in 1993, and then dropped back to LE 152.3 million in 1994. By 1996, charges to farmers had increased by 2.5 times from LE 18.6 million in 1993 to LE 47.25 million. The magnitude of the total subsidy fluctuated from 1993 to 1996 but declined little. In 1996 the subsidy was still LE 190.25 million, or LE 201.3 per feddan. The pest control charge to farmers was LE 50/feddan from 1994 through 1996. The subsidy had therefore not been phased out even by the first year (1996/97) of APRP.

Although the GOE increased the charge to farmers for pest control services to LE 100/feddan in 1997, this fell short of the GOE's stated intention to collect the full cost of about LE 250/feddan for these services from farmers. In 1998, the GOE covered the entire cost, equal to LE 300/feddan, of providing pesticides to cotton producers, although it had announced early in the season that it would charge farmers one-third of this cost (or again LE 100/feddan, as in 1997). In 1999 and 2000, the GOE did charge one-third of the cost of providing pesticide services, equivalent to LE 100/feddan. The medium-run GOE intention appears to be to maintain a subsidy on pest control equivalent to LE 100/feddan, even though returns to cotton production increased significantly in 2000, due to high seed cotton prices.

3.1.3 Transition to APRP

²¹ The MALR announced in mid-February 2000 that LE 250 million be made available for paying producer subsidies in 2000/2001 through the Cotton Stabilization Fund.

Tranche VII of APCP (1995/96) had no fewer than seven overall benchmarks (with 15 sub-benchmarks), covering liberalization of seed cotton domestic marketing and international lint trade, as well as cotton ginning, elimination of pest control subsidies and private sector competition in providing pest control services, and grower freedom to choose area planted and choose among registered cotton buyers (public or private). Tranche VII of APCP paved the way for a shift in emphasis on cotton marketing, international trade, and pricing that characterized cotton benchmarks during the first three APRP Tranches. The first benchmark of Tranche I of APRP was to re-verify that the 7 Tranche VII APCP benchmarks were being met for the 1996/97 crop.

3.2 Summary of Benchmarks under APRP

Excluding the re-verification of APCP Tranche VII benchmarks (APRP 1.A1), policy benchmarks under APRP related to the cotton and textile subsector have fallen into five major groups (plus one “other” category), shown in Table 3-2. The two most prominent categories are cotton market liberalization (5 BMs) and privatization and pre-privatization assistance to the textile industry (11 BMs). Pre-privatization assistance could perhaps be separated out as a distinct category, involving studies, privatization plans, inventory reduction at public textile companies, debt resolution, and development of leasing and management contract guidelines (7 BMs). Other categories include yarn import tariffs and yarn export pricing, phytosanitary restrictions on lint cotton imports, and promotion of short-staple varieties.

Table 3-2: Classification of Cotton/Textile Subsector Benchmarks under APRP

Benchmark Category	Tranches				Total
	I	II	III	IV	
Cotton Market Liberalization	2	2	1		5
Privatization of Public Textile Companies (and pre-privatization assistance & restructuring)	5	3	3		11
Yarn Import Tariffs & Export Pricing	2	1	1		4
Phytosanitary Restrictions on Lint Cotton Imports	2	1	1		4
Short-Season & -Staple Varieties	2	1	1		4
Other: Create New Ginning & Spinning Industry Jobs			1		1
Subtotal: Directly Related BMs	13	8	7	0	29
Pest Management		1	1		2
(Acid) Seed Delinting	1				1
Support Institutions & Services	3	3	3	4	9

As in the case of rice, benchmarks in the category “support institutions and services” are not focused on the cotton/textile subsector as such, but are likely to have an indirect impact. These benchmarks cover research and extension, policy analysis capability, market information, irrigation advisory services, and association strengthening.

3.3 Major Reforms Completed

The record for liberalization of the cotton subsector under APRP is mixed, and this is reflected in successive verification reports of the MVE Unit. The following subsections discuss progress to date on different aspects of subsector liberalization and privatization to date.

3.3.1 Short-Season and Short-Staple Varieties

Accomplishment is highest for this category, as 3 of 4 benchmarks were achieved. The progress made in this area was slowed during Tranche III (benchmark D6) when the GOE did not allow private sector companies, farming remote land, to import *hirsutum* cotton varieties for testing on those lands. Upland cotton seed from the U.S. was imported into Egypt, with APRP and CSPP assistance and funding, but it remained at ARC without being planted in 1999. By February 2000, progress had resumed, as Minister Youssef Wally instructed the Cotton Research Institute (CRI) of ARC to carry out trials on *hirsutum* cotton varieties in the New Valley. One row of upland cotton (a Texas variety) was planted as an observation plot by ARC at Abu Simbel in mid-February 2000 and harvested in late June/early July 2000. No test data are available, but CRI plans to do another trial of several MVE *hirsutum* cotton varieties in 2001. CRI maintains numerous types of imported *hirsutum* cotton germplasm for these tests at its Giza facility.

APRP/MVE will continue to monitor progress in these trials and in allowing private growers and companies to test *hirsutum* varieties under field conditions outside the Old Valley. CRI officials insist that *hirsutum* be planted outside the Old Valley, away from *barbadense* varieties, to avoid contamination of *barbadense* seed and cotton lint. They note that some farmers in Sohag and Assiut still grow *hirsutum* varieties, because they have observed its larger bolls than *barbadense*; *barbadense* varieties have a larger number of bolls per plant, however.

There have also been some trials of *barbadense* cotton in the New Valley Governorate. The Horticultural Services Unit sowed 100 feddans of Giza 83 in East Oweinyat during the summer of 1998. This was an extremely hot year and nothing was harvested. Giza 90 was planted by Dabbah (ATICOT) on six feddans in Farafra; Dabbah obtained 11 seed kentars per feddan. Last, a U.S. based trading company, First Atlantic, has expressed an interest to MALR in planting 50,000 acres of Gizas 80, 83 and 90 near Abu Simbel.

3.3.2 Phytosanitary Restrictions on Lint Cotton Imports

Considerable progress has been made on clarifying and better specifying phytosanitary criteria for imports. Both BMs were accomplished in Tranche I and follow-up BMs in Tranche II and III were nearly accomplished (strong partial accomplishment). GOE phytosanitary regulations need to be disseminated more broadly, via a public medium (e.g., newspaper), to prospective private importers. Furthermore, the criteria for assessing phytosanitary risk have not yet been elaborated by the MALR/CAPQ, although APRP/RDI and CSPP made good progress in outlining these criteria in a consulting report (see El-Sharkawy and Joseph, 1999). As of summer 1999, the GOE intended to make one or more visits to cotton-producing countries, such as the Southeastern U.S., Syria and Turkey, that

are candidates for risk assessments. These visits were not made in 1999 nor in the summer of 2000. GOE specialists in plant pathology, entomology, and plant quarantine need to visit prospective supplying countries during their growing, harvesting and ginning seasons to observe potential pest problems. APRP/RDI offered to provide technical and financial support for any country visits, but there appeared to be little MALR interest in following up on this.

Although progress appeared stalled at the official level, imports of cotton lint were significant in 1999/2000 and will be larger during 2000/01. The Holding Company imported 16,000 mt of Greek medium-staple cotton lint in 1999/2000, as well as 15,000 more mt in 2000/01. The HC has also concluded negotiations to import 20,000 mt of lint from Syria over a several-month period (December 2000 to February 2001), which may be followed by additional imports if the domestic spinners require more imported lint. Greek and Syrian lint is subject to double fumigation and MALR/CAPQ inspection at both points of fumigation (source and Alexandria). Despite the high cost of these fumigations, imported lint is delivered to the spinning factory gates at considerably lower cost than the domestic long staple cotton lint. Domestic spinners are currently negotiating with the MALR-led committee on cotton pricing to receive all domestic lint at Giza 80/83 prices.

Sudanese *acala* has historically been imported with less difficulty and costs than other foreign growths, but imports were banned in July 2000 after over 100,000 lint kentars were imported in 1999/2000. There are rumors that this ban will soon be lifted. The ban was imposed ostensibly due to phytosanitary problems, particularly “black arm” disease, which could be transmitted to the Egyptian cotton crop. An MALR mission of specialists (from CRI, CAPP, CAPQ) was sent to Sudan to evaluate this problem in the first half of November 2000. MALR is awaiting their report. *Acala* can also become sticky, which is caused by the secretions of the white fly. This stickiness can lead to problems in spinning. There is no evidence of boll weevil in Sudanese cotton. Single, as opposed to double, fumigation is required.

3.3.3 Private Sector Participation in the Seed Cotton Trade

Other categories of cotton BMs proved more difficult to achieve. Two BMs under market liberalization were judged to be partially accomplished in Tranche II (1997/98) and barely accomplished in Tranche III (1998/99). While private sector participation in seed cotton marketing was almost nil in 1996/97 and limited in 1997/98, resulting in delivery of only 0.1% and 5.1% of total seed cotton to the gins, it increased significantly in 1998/99 (to at least 19.6%).²² Sixty-six of 73 traders in an MVE sample survey of private seed cotton buyers participated during the 1998/99 marketing season and supplied 93,732 seed kentars to larger buyers, mainly private companies (see Holtzman and Mostafa, 1999). Data for the 1999/2000 season show that the private sector share, as measured by deliveries to the gins, increased to 44.7% (see Krenz and Mostafa, 2000). CIT-HC data show that 18 private companies (including

²² Aggregate CATGO data, supplied to MVE in the fall of 1999, show that private companies supplied 19.6% of total seed cotton to the gins. Data obtained from CIT-HC in February 1999, although not representing the full ginning season, suggest that private sector deliveries were a higher proportion of total deliveries to the gins (28.1%).

EMEPAC)²³ bought seed cotton and delivered it to the gins in 1999/2000, up from 11 companies in 1998/99. The increase in the number of private companies delivering to the gins is a positive achievement, although the quantities that some delivered were modest. Note that the largest three private buyers--Modern Nile, Tanta Cotton Company, and Nile Ginning--purchased 67.8 percent of the privately bought seed cotton in 1999/2000 (excluding EMEPAC). This is slightly less concentrated than in 1998/99, when the Modern Nile group bought 60 percent of the privately purchased seed cotton.²⁴ With EMEPAC²⁵ included in those calculations, the private share of Modern Nile was 53.4 percent in 1998/99 and 57.8 percent for the top three buyers in 1999/2000.

Despite this greater private sector participation, private trading companies assert that the Cotton and International Trade Holding Company limited their access to PBDAC sales rings in 1999/2000 and again in 2000/01. Krenz and Mostafa (2000) estimated that private trading companies requested twice as many sales rings as they received in 1999/2000. While these companies may have set their requests high in order to end up with an acceptable number of rings, it appears as if the private sector could have expanded its share further in 1999/2000 at the expense of the public sector trading and ginning companies. The CIT-HC, who assigned the sales rings in 1999/2000, appears to have been protecting the interest of these public sector companies. It is also alleged that the Holding Companies instructed the public sector trading companies to give preference in delivering seed cotton to the three remaining public sector ginning companies. If true, this is at least implicit evidence of administrative allocation of seed cotton, which supposedly had disappeared by 1996/97.

Expanded private sector deliveries of seed cotton to the gins is good news, but it must be understood in the context of a highly regulated procurement system. *The GOE continues to adhere to a policy of one official buyer per sales ring, and most of the cotton is bought at PBDAC-run rings or at cooperative collection centers* (94 percent in 1998/99 and an estimated 95 percent in 1999/2000).²⁶

²³ EMEPAC is nominally private, though it is run by the ARC's Horticultural Services Unit. It had an exclusive arrangement with the MALR in 1999/2000 to buy seed cotton from contract producers growing cotton for planting seed. Unless noted, EMEPAC's purchases are excluded from the private sector share.

²⁴ The overall share of the Modern Nile group in total seed cotton buying (public and private companies) in 1998/99 was 15.2%, and the three largest private buyers combined for a 20.2% market share. This same share of the three largest private sector buyers in 1999/2000 was 25.4% (and 14.0% for the Modern Nile group).

²⁵ EMEPAC bought 255,277 kentars of seed cotton in 1999/2000, over double the amount purchased in 1998/99— 123,435 kentars. Given its public sector ownership, MVE does not consider EMEPAC as a private cotton trading company.

²⁶ Holtzman and Mostafa (1999) estimates that 197,335 seed cotton kentars were collected directly from producers and small traders, outside of PBDAC sales rings, in 1998/99. Krenz and Mostafa (2000) estimate that this declined to 167,556 kentars in 1999/2000. Adding in 30,000 kentars for purchases by and for *dawalib* ginner yields 197,556 kentars purchased outside of PBDAC sales rings and coop collection centers in 1999/00. The estimate for the 1998/99 marketing season does not include any estimate of deliveries to *dawalib*.

Although cooperatives do not function in the same way as PBDAC sales rings, producer prices are fixed at both the collection centers and rings, based on grade and ginning out-turn,. There is no bargaining over prices or haggling over grades. Producers may have a little choice in where they choose to deliver their seed cotton, but these decisions are not made on the basis of price or services. Ease of access to rings and the perception that private traders who buy outside sales rings pay more quickly than sales rings are key considerations affecting producer choice of sales venue. Producer tactics to delay PBDAC or cooperative loan payments also affect where producers sell. If a producer has taken out a PBDAC or coop loan, he may choose not to bring his seed cotton to a sales ring run by PBDAC or to the cooperative, because he doesn't want any deductions for production credit made from his sales receipts. Having taken a production loan from PBDAC, a producer may deliver to a coop collection center, or vice versa.

As long as ALCOTEXA continues to fix lint cotton export prices for an entire season, making marginal adjustments downward (1998/99) or upward (1999/2000) late in the marketing season, producer prices will continue to be set by GOE committee and implemented by CATGO. The rationale for this is that it keeps the margin constant between seed cotton procurement and lint cotton export prices, thereby making the operations of public sector trading companies as transparent as possible and protecting them from financial losses (or managers from claims of fraud) caused by a drop in export prices.²⁷ As long as the public sector companies continue to dominate the seed cotton trade and export marketing,²⁸ this rigidity in seed cotton pricing will be the rule. This being said, there is increasing evidence over time, particularly in 1998/99, of small traders buying seed cotton from farmers outside of sales rings at lower prices than those paid at PBDAC sales rings.²⁹ The price discounts are linked to and constrained by the level of prices set by CIT-HC, however. Discounts stay within a narrow range, set by transport and handling costs, a modest return on assembly by the trader, and the risk that the grade that a small trader assigns to the seed cotton he buys turns out to be higher than justified after ginning, once the out-turn ratio is known and CATGO graders have given a final grading to the lint.

One positive development during the past couple of years has been the emergence of a few medium-size cotton trading companies as competitors to the Modern Nile Group, Nassco and

²⁷ If a public sector company buys most of its seed cotton at a high price during the three months after harvest, and then the export price is adjusted downward during the period required to transport, gin, and prepare the cotton for export, the company will incur a financial loss on the export sale. This is because the fixed marketing charge, set by the CIT-HC and already minimal, will be insufficient to cover real marketing costs. Note that this fixed charge was lowered from LE 60/seed kantar in 1998/99 to LE 50/kantar in 1999/2000.

²⁸ The public sector shares were 71.9% of total seed cotton purchases and 74.9% of export shipments in 1998/99, and 55% of seed cotton purchases and 84.5% of export *commitments* for 1999/2000.

²⁹ Based on a detailed breakdown of seed cotton purchases by large trading companies in 1998/99, MVE estimated that these companies bought 190,085 kentars directly from traders, brokers and farmers and 50,000 at gins. The November 1998 survey of small- and medium-scale seed cotton buyers showed that these traders bought 93,732 kentars of the 1998 crop outside of sales rings.

Nefertiti, the dominant three private exporters from 1996/97 through 1998/99.³⁰ Table 3-3 shows the shares that private sector buyers of seed cotton supplied to each private company in 1998/99 and 1999/2000. Tanta Cotton Company purchased 250,692 seed cotton kentars in 1999/2000, up significantly from 91,398 kentars in 1998/99, making it the second largest private sector buyer. Tanta purchased nearly all (88.6%) of its seed cotton in 1998/99 directly from growers and brokers, while this proportion declined to 41.6% in 1999/2000. It bought from 24 PBDAC sales rings in 1999/2000, as opposed to only four in 1998/99, and it received 22 sales rings in 2000/01. ATICOT, which bought 25,000 kentars of seed cotton at five PBDAC sales rings in Upper Egypt beginning in 1997/98, expanded its operations in 1998/99 to the Delta and purchased 70,580 kentars of seed cotton from cooperatives (30,000), directly from producers and smaller traders (16,017),³¹ and eight PBDAC sales rings. In 1999/2000, ATICOT again increased its purchases of seed cotton to 108,248 kentars at 19 PBDAC sales rings (57.7% of total purchases), from cooperatives (35.5%), and directly from growers (6.7%). In 2000/01, ATICOT was only allocated 10 sales rings, which will cut its purchases of seed cotton through PBDAC rings by at least 50%.³² El Mabrouk is another medium-size firm³³ that bought seed cotton in 1998/99 (25,603 kentars) and 1999/2000 (39,297 kentars), taking 7 and 13 PBDAC rings respectively. El Watany and El Attar (Benha) are two other private sector participants, having bought 36,293 and 30,289 kentars respectively in 1999/2000.

From Table 3-4, we can see that total private sector seed cotton purchases were 48.7 percent greater in 1999/2000 than in 1998/99. This was comprised of 61.0 percent greater purchases through an expanded number of sales rings, 207 as opposed to 149, and nearly double the volume of purchases from cooperatives (94.9% increase). Estimated purchases directly from producers and other traders (small-scale assemblers) declined 31.8 percent from 1998/99 to 1999/2000, although the difference is less pronounced if we exclude purchases by the Modern Nile group at its Arab Ginning Company gins in 1998/99. Comparing 1998/99 to 1999/2000, the proportion of seed cotton bought at PBDAC rings and from coops increased in 1999/2000, while it declined for purchases outside the rings.

In addition to seed cotton buying by private trading companies, four spinning companies also bought 158,042 kentars of seed cotton in 1999/2000. Three of these companies were public (Misr Mehalla, Delta S&W, Dakhalia S&W), while one was a joint investment company (MISR-Iran).

³⁰ The combined shares of these three private exporters (of total export shipments) were 97.2%, 95.0% and 80.0% during the last three completed export seasons. As of 20 September 2000, these three exporters had received 79.7% of export commitments made to private exporters.

³¹ Note that ATICOT ran two of its own rings, at which little seed cotton was purchased.

³² Most observers anticipated that a higher proportion of seed cotton will be purchased outside PBDAC rings in 2000/01, given a short crop and upward pressure on prices.

³³ The Mabrouk group of agribusiness and trading enterprises is one of the largest agribusiness conglomerates in Egypt. The cotton company is one of about half a dozen major enterprises. Mabrouk is also the largest private sector rice miller in Egypt, the number three rice exporter, and an important exporter of potatoes.

Table 3-3 : Seed Cotton Purchases by Private Sector Companies, 1998/99

(in seed kentars, unless noted otherwise)

Company	1998/99								
	Total SK	Share of Private	No. of Rings	No. SK Rings	Rings as % Total	No. SK Coops	Coops as % Total	SK Outside Rings	Ex-Rings as % Tot.
Modern Nile Group	609,705	59.9%	81	248,590	40.8%	282,711	46.4%	78,404	12.9%
Nile Ginning	111,382	10.9%	37	108,221	97.2%			3,161	
NASSCO	36,243	3.6%	8	34,607	95.5%			1,636	
Nefertiti Group	18,150	1.8%	0					18,150	100.0%
Talat Harb	0		0						
ATICOT	70,580	6.9%	10	24,563	34.8%	30,000	42.5%	16,017	22.7%
Tanta	91,398	9.0%	4	10,377	11.4%			81,021	88.6%
El Mabrouk	25,603	2.5%	7	18,573	72.5%			7,030	27.5%
El Watany	31,693	3.1%	0					31,693	100.0%
Benha (El Attar)	9,654	0.9%	2	6,681	69.2%			2,973	30.8%
El Dawlia	0		0						
Abdel Rahman	0		0						
Other Private	13,000	1.3%	0					13,000	100.0%
Total	1,017,408	100.0%	149	451,612	44.4%	312,711	30.7%	253,085	24.9%
<i>EMEPAC</i>	<i>123,435</i>			<i>123,435</i>	100.0%				

Sources: CIT-HC, MVE interviews with cotton traders.

Notes: 1) Other Private trader seed cotton purchases include an estimated 7,250 kentars supplied by MVE sample traders to public sector cotton trading companies, as well as an estimate of what small traders outside the MVE sample supplied to public companies. This is a rough estimate. There is no estimate of what *dawalib* bought.

2) Note that 49,350 kentars purchased by the Modern Nile group at its gins (Arab Ginning Company) were included in the 79,054 kentars that Modern Nile bought outside rings.

3) MVE does not consider EMEPAC to be a private company, as the Horticultural Services Unit, a public agency, owns a controlling share.

Table 3-4: Seed Cotton Purchases by Private Sector Companies, 1999/2000

(in seed kentars, unless noted otherwise)

Company	1999/2000								
	Total SK	Share of Private	No. of Rings	No. SK Rings	Rings as % Total	No. SK Coops	Coops as % Total	SK Outside Rings	Ex-Rings as % Tot.
Modern Nile Group	552,795	37.5%	78	273,013	49.4%	279,061	50.5%	721	0.1%
Nile Ginning	197,294	13.4%	10	48,075	24.4%	149,199	75.6%	20	
NASSCO	99,220	6.7%	26	99,093	99.9%	0		127	
Nefertiti Group	28,620	1.9%	3	0	0.0%	16,265	56.8%	12,355	43.2%
Talat Harb	73,546	5.0%	13	39,183	53.3%	26,613	36.2%	7,750	10.5%
ATICOT	91,209	6.2%	19	45,656	50.1%	38,486	42.2%	7,067	7.7%
Tanta	251,120	17.0%	24	75,444	30.0%	72,499	28.9%	103,177	41.1%
El Mabrouk	39,204	2.7%	13	28,935	72.2%	0		10,269	26.2%
El Watany	37,080	2.5%	0	0		36,877	99.5%	203	
Benha (El Attar)	30,144	2.0%	6	28,450	94.4%	0		1,694	5.6%
El Dawlia	22,668	1.5%	7	22,668	100.0%	0		0	
Abdel Rahman	17,066	1.2%	5	17,066	100.0%	0		0	0.0%
Other Private	35,797	2.4%	3	11,624	32.5%	0		24,173	67.5%
Total	1,475,763	100.0%	207	689,207	46.7%	619,000	41.9%	167,556	11.4%
<i>EMEPAC</i>	<i>255,277</i>		<i>45.5</i>	<i>184,497</i>	<i>72.3%</i>	<i>70,780</i>	<i>27.7%</i>		
<i>Dawaliib</i>	<i>30,000</i>							<i>30,000</i>	

Sources: CIT-HC, MVE interviews with cotton traders

Notes: 1) Other Private companies include Shamal El Sayad, El Sayed, El Shark, El Safa and Sekem. In addition, it is estimated that private seed cotton buyers purchased an additional 50,000 kentars that was largely supplied to *dawaliib*, small unlicensed gins that provide lint to the mattress & furniture industries.

- 2) Talat Harb initially had no PBDAC rings to collect seed cotton. It probably acquired these from other private companies after the initial allocation of gins by the CIT-HC.
- 3) EMEPAC buys seed cotton (on an exclusive basis for MALR) from farmers producing seed for the next growing season. It was not considered to be a private firm and not included in the figures for private traders.

3.3.4 Allocation of Lint Cotton to Spinners

This Tranche I BM was only partially accomplished, because the GOE maintained fixed prices to domestic spinners and allocation was administered as of 1996/97. Prices paid by spinners are set in relation to the minimum ALCOTEXA export prices, less specified amounts for fobbing costs. This had not changed by 1999/2000, although public spinners are now able to consider importing lint cotton. The SWRMC-HC reportedly imported 320,000 lint kentars from Greece in late 1999, after significant delays following tenders and a dispute over whether Egyptian spinners would pay the 10 percent sales tax.³⁴ As of 2000/01, there remains a Facilitating Committee for Lint Cotton, headed by the Chairman of the SWRMC-HC, that can instruct public sector cotton trading companies to supply particular public spinning companies. The influence of this Committee appears to have waned in recent years, however, as trading companies insist on up-front payments by spinners, many of whom are indebted and struggling financially. Furthermore, the privatized spinning companies bought most of their lint cotton (76.2% as of 30 June 2000) from private cotton trading companies in 1999/2000. It also appears as if the better performing public sector spinners bought significant amounts of cotton lint from private traders.³⁵

In the past, particularly from 1996/97 through 1998/99, there were large carryover stocks of lint cotton held by the public cotton trading companies. As a result, the Holding Companies discouraged public spinners from seeking out alternative, cheaper sources of supply. Although imports of cheaper upland cotton from the U.S., Sudan and other destinations were legal,³⁶ the Holding Companies did not allow public sector cotton trading companies or spinners to import lint from 1996/97 through 1998/99. This changed in late 1998/99 (and in 1999/2000), when the shortages of domestically produced long-staple cotton became well-known. LS lint cotton stocks were virtually nil by the summer of the 1998/99 season. Fearing a repeat of this scarcity of long-staple cotton for the domestic spinning industry in 1999/2000, the GOE banned further export commitments of three long-staple varieties, Giza 86, 89 and 85, as of 31 October 1999, at which point commitments stood at 38,257 mt for Giza 86, 8,765 mt for Giza 89, and 2,452 mt for Giza 85, representing 81 percent of total export commitments (as of 30 October 1999). *This interference in export marketing of lint cotton is evidence that the GOE still exercises strong control over how lint is allocated.* Despite the problems facing the domestic spinning industry in selling its accumulating inventories of yarn, fabric and other textile products, the GOE banned long-staple lint exports to reserve lint cotton for domestic spinners during a year of low seed cotton production, as had occurred in 1995/96, when there were no long-staple lint exports.

³⁴ Several spinners reported that this lint was nearly comparable to Giza 80/83, which cost more (LE 14-24/kentar). Spinners report that up to 500,000 lint kentars of Sudanese lint were imported in 1999/2000 and that one importer can also supply Syrian lint at lower prices than those for imported Greek lint cotton.

³⁵ As of 30 June 2000, public spinning companies had procured 33.6% of their cotton lint from private traders, up from 23.0% in 1998/99. Joint investment company purchases from private trading companies rose from 34.0% in 1998/99 to 47.9% in 1999/2000 as well.

³⁶ Imports of lint cotton from destinations other than the U.S. and Sudan are subject to costly double fumigation and are not permitted to be spun in textile mills inside cotton producing zones.

In light of the financial problems faced by many domestic spinners and immense stocks of certain varieties, the Holding Companies discounted some of the carryover stocks of Giza 75 and Giza 70 to domestic public spinners by LE 50/lint kantar in 1998 and again by LE 50/kantar for Giza 70 in 1999.³⁷ Private spinners, other than the large privatized companies, surveyed in 1999, reported that they did not have access to this lint or any knowledge that it was being sold at a discount. This is evidence *that lint continues to be allocated in part administratively to the more indebted, poorly performing public spinners, and that price discounts on carryover stocks are offered first to public spinners.*

3.3.5 Support Institutions and the Role for the Public Sector

All of the benchmarks related to support institutions were considered accomplished, with the exception of the research and extension benchmarks, judged partially accomplished but where progress in implementation was well underway. Note, however, that as a general observation, public sector services to the cotton subsector require further strengthening and significant reorientation.

There remain a number of GOE committees that are holdovers of the command and control economy of the 1960s through 1980s. The High Committee on Cotton, a public sector-dominated group (see Annex 1 for a list of key committees and their members), makes decisions about which varieties are grown, desired production levels, how seed cotton marketing will be organized each year, and the conditions that must be met for traders to participate. Industry input appears to be minimal. Quite a few of the members of the Council are MALR or former MALR employees who worked in the ARC or are still serving as consultants to ARC. While experience and continuity in policy formulation are important, the members' formative working years were spent under a different economic system, a command and control economy, and such a system is not necessarily the most appropriate model or organizing construct for a liberalized cotton subsector.

There is also a Steering Committee for the Cotton, Fibers and Oil Crops Board, which was created by Ministerial Decree No. 78 of 1999, nominally chaired by Minister Youssef Wally, but run by Ahmed El Gohary. There is also an advisory group of 35 members called the Cotton Council, which appears to have no legal status or real power. Last, there is a separate yet informal cotton variety committee, within ARC, that determines what varieties are planted (for production and seed multiplication) each year, where they are planted, and the area planned for each variety.

Other important decision-making committees include ALCOTEXA's Management Committee, the Supervisory Committee for Cotton Marketing, and TCF's Permanent Committee (that sets minimum yarn and fabric export prices). The Supervisory Committee takes the annual August decree on the "optional cotton marketing system" and makes key decisions about implementation details. It then oversees implementation of the marketing system, particularly the operations of the sales rings and seed cotton pricing. TCF's Commercial Committee sets minimum yarn and fabric export prices once a year; TCF

³⁷ There were also reports that the public sector spinners asked the HCs for a deep discount in the prices of Giza 80/83 in 1999/2000 that was not granted. One spinner reported that Giza 80/83 is an off-white color, not preferred by European textile companies, who want whites that can absorb and look good with strong dyes.

supervises and records exports, as well as issuing quota visas to companies that export to the U.S. and EU.

3.3.6 Privatization

Success in accomplishing privatization benchmarks has been mixed. APRP and the GOE have diligently tried to create an enabling environment for privatization, accomplishing a number of important pre-privatization BM's. There were successful privatizations of ginning and spinning companies in Tranches I and II, but momentum stalled in Tranche III (1 July 1998 to 30 June 1999). This coincided with an overall slowdown of privatization during 1998/99, which has continued into early 2000 (see Carana Corporation, 1999).

In 1997 to 1999, the GOE made efforts to prepare public sector textile companies for privatization through debt resolution and inventory reduction, although there was no published MPE plan for either and the processes were not very transparent. This is consistent with the way in which the GOE operates in undertaking policy reform and privatization and can be considered the GOE political style. Note, however, that the rest of the world and prospective foreign investors generally require more openness in policy decision-making and transparency in the privatization process. Privatization of textile companies stalled under Tranche III, in part because of this but also due to persistent problems of high valuations of the assets of public companies,³⁸ particularly ultra-high land values, and continuing debt, labor force redundancy, and inventory disposal problems. Progress continues to be made on debt resolution, through write-offs (38.8% of LE 2.81 billion) and debt payments (20.9%), though remaining debt (as of 31 March 1999) was still over LE 1.1 billion. The labor force of public sector textile companies is huge, estimated at 173,725 in 1996/97. It is important to note that 7.1 percent of the 230,928 total workers in the three cotton and textile holding companies (including workers in non-textile firms), as of 1996/97, took early retirement in the following 21 month period. The GOE has been working on down-sizing the public textile companies, as resources have become available, but progress has been slow, given the high cost of the program. A typical severance payment of LE 20,000 per worker is equivalent to 3-6 years of employment, generous by international standards.

Successful Ginning Company Privatization. *The greatest success has come in privatizing public sector ginning companies.* Leases signed by private sector exporters with public ginning companies in 1994/95 enabled those firms to capture 23.4 percent of the market in 1994/95 and 25.2 percent in 1995/96, as measured by lint cotton output (see Ender et al., 1999). Most of these leases were canceled,

³⁸ An IFC review of lessons learned, *Privatization: Principles and Practice*, is instructive for its insights back in late 1995. "Why do Governments want valuations of enterprises before they are sold when it is self-evident that the value of an enterprise is what the market is willing to pay for it? Shouldn't governments and advisors simply ensure the provision of full and accurate information and transparency of competition in sales and let the market deliver the best possible price? The apparent logic of this contrasts sharply with practice. One reason is that by definition, in privatization, past is not prologue. In a large number of instances, the balance sheet of the SOE (state-owned enterprise) features book values of assets (and, often, the debt incurred to finance them) which exceed their practical value to any potential purchaser. Having invested, the least governments want is to recoup their outlays, particularly if they are going to absorb most or all of the corresponding debt. This is often unrealistic."

however, in 1996/97. As Krenz et al. (2000) point out, lessees never had any incentive to invest in the leased gins. Furthermore, they had to retain all of the public sector ginning company's labor, much of which was redundant and was offered no incentive to perform better to produce a higher quality ginned output.

More lasting and significant privatization took place when two public ginning companies were sold (a majority of the shares) to anchor investors in 1996/97. One, Arabeya Ginning, is operating profitably and had increased its share of the ginning market to 20.5 percent by 1998/99 from 13.0 percent in 1996/97 (See Table 3-5). Its largest market share during the 1990s before privatization was 20.6% in 1993/94. The other, Nile Ginning, operated at a lower level than Arabeya after privatization, ginning only one-seventh of the seed cotton crop in 1996/97 and 1997/98, but its shares were a respectable 18.0 percent in 1998/99 and 16.5 percent in 1999/2000.³⁹ For both privatized ginning companies, the combined market share was 38.5 percent in 1998/99, nearly proportional to their share of the number of large ginning companies (2 of 5 or 40%). The private sector gins produced a total of 39.6 percent of the ginned lint cotton in 1998/99, as seen in Table 3-5.

More important than market share, *the more successful of the two privatized ginning companies, Arabeya, has made management changes, closed small, obsolete gins in crowded locations, and down-sized its labor force through early retirements (see Krenz et al., 2000). Furthermore, Arabeya Ginning has introduced technical innovations* to improve cleaning of seed cotton before ginning, conveyance of the cleaned seed cotton to the ginning stands, pressing of the ginned product—lint cotton, and baling and storage of clean lint cotton. By using UD bale presses, Arabeya is converting to international standards and responding to world market preferences, as well as lowering its export marketing costs. The management team at Arabeya undertook these innovations with significant CSPP and APRP input. The February 1998 study tour to Zimbabwe and South Africa, which included the Chairman of Arabeya Ginning and Modern Nile, was instrumental in demonstrating improved ginning and seed/lint cotton handling techniques (see Treen, 1998). APRP and CSPP also provided other input that made a difference—discussions, presentations, and papers—as part of their implementation programs (see especially Krenz et al., 2000).

In addition, it is important to note that the Modern Nile group acquired Arabeya Ginning on very favorable terms; the CIT-HC valuation of this first ginning company privatization was reportedly low. The privatization deal for Nile Ginning was far less favorable; if anything, the investor group paid a premium for these assets. The perception in many quarters that Arabeya Ginning was undervalued may have contributed to the subsequent high pricing of public ginning company assets. This has led to a stalemate in further ginning company privatizations.

³⁹ Nile Ginning ginned 20.9 percent of the seed cotton crop in 1993/94 and 18.0 percent in 1995/96. These shares reflect administrative allocation of seed cotton to the five public gins before privatization, when each company received approximately equal shares of 20%.

Table 3-5: Private Sector Share in Ginning

Ginning Company	1996/97	1997/98	1998/99	1999/2000
Arabeya Ginning	13.0%	18.9%	20.5%	19.6%
Nile Ginning	NA	14.5%	18.0%	16.5%
Nefertiti	0.2%	1.5%	1.1%	0.7%
Private Sector Share	13.2%	34.9%	39.6%	36.8%
Public Sector Share	86.8%	65.1%	60.4%	63.2%

Source: Ender et al., 1999, *A Baseline of APRP Progress Indicators, 1990-1997* and Krenz and Mostafa, 2000, *Seed Cotton Marketing in Egypt, 1999/2000*.

Notes: 1) Private sector share is defined here as the proportion of lint cotton produced (ginning output) by firms that are majority-owned by the private sector. Ginning output by gins leased by the private sector is not included, except for the Nile Ginning company gin in Minya, leased by Nefertiti in 1996/97, 1997/98 and 1998/99.
2) Nefertiti operated two gins in Upper Egypt in 1998/99 that ginned 1.1% of the seed cotton crop (excluding seed cotton destined for planting seed). The Sakha gin processed 12,499 mt of seed cotton, where the seed would be planting season in 1999.
3) 1999/2000 figures are derived from seed cotton deliveries to gins only. Figures for earlier years are for lint cotton output of gins.

Some flexibility in asset pricing is critically important to get privatization of public sector ginning companies back on track. Arabeya has made more technical improvements than any of the other ginning companies; the fact that Arabeya was purchased at a favorable price helped to fund investments that improved ginning quality and to pay for early retirements (and gin closures) that were needed. As Krenz has argued (Krenz and Mostafa, 2000), closures of old, obsolete gins by privatized ginning companies and profitable sale of the land should be welcomed, provided the profits are directed toward improving the operations of the remaining gins. The Modern Nile group appears to have done this without any particular GOE restrictions or regulations (on gin closures, sale of assets, and use of the profits), which attests to the seriousness of this group as a long-term player in the cotton subsector.

Two ginning companies, Delta Ginning and El-Wady Ginning, were offered for privatization in the second half of 1999, but no sales were made. In the case of El Wady Cotton Ginning, no offers were submitted to the MPE. According to Carana Corporation (see PCSU *Privatization in Egypt: Quarterly Review, July-September 1999*), Delta Cotton Ginning privatization was “awaiting contract execution” or in the final stages of negotiation as of October 1999 (see p. 20).⁴⁰ This does not match reports by interested private investors, who wanted to buy the Delta gins as a consortium of firms, including Nassco, Modern Nile, ATICOT and Mabrouk. The prospective investors wanted to break apart Delta, keeping half of the gins operating and closing the other half and selling off the land. The deal fell apart, because the Holding

⁴⁰ PCSU's *Privatization in Egypt: Quarterly Review, January-March 2000* reports that tenders were advertised for the Delta Ginning Company in the fourth quarter of 1999 and that offers were being evaluated during the first quarter of 2000 (p. 30).

Company price was too high (based on an unrealistically high valuation, without the land included), and the MPE wanted to lease the land for 25 years. The investors claim they would have compromised on a 50-year lease and a lower selling price, but the MPE did not budge. The Holding Company also evidently wanted to retain the three best operating gins and sell the remaining ten gins, which were in poorer condition and would require significant investment to rehabilitate and upgrade.

No Progress in Privatizing Public Cotton Trading Companies. None of the six public sector cotton trading companies has been privatized yet. One public company, Alexandria Commercial Company, expressed an interest in taking itself private through an ESA in 1997/98, but this not happened. The five other public sector companies have never expressed any serious interest in being privatized. They still dominate seed cotton buying and lint trading, including both export and supplying of domestic spinners, though the private sector share has been expanding during the past several years. One reason why there has been no serious attempt to privatize public cotton trading companies is that these companies can pass along stocks of slow-moving lint cotton to the GOE without incurring any penalties late in the marketing season. In this case, the public companies become buying and commission agents for the GOE, taking no business risks. The GOE has also forgiven trading companies' debts to public sector banks, which were incurred as a result of GOE pricing policies on seed and lint cotton in 1996/97 and 1997/98.

As the private sector share in seed cotton buying and delivery to the gins has gone from nil in 1996/97 to 44.7 percent in 1999/2000, it becomes increasingly difficult to make the argument that the private sector lacks the interest and capacity to take on this important assembly market function. The same point can be made about private sector export of lint cotton, where the private share went from 3.3 percent in 1995/96 to 25.1 percent in 1997/98 and 1998/99 (shipments, not commitments).⁴¹

Failure to privatize the public sector trading companies is a major impediment to further liberalization of the cotton/textile subsector. These companies have few assets and large staffs, relative to their volume of business. In order to break even, chairman of these companies report that they need to buy at least half a million seed kentars each. Company chairmen argue that the names and reputation of the public cotton trading companies are important intangible assets, but it is hard to place a value on these and widely viewed that the private sector trade could expand to take on all seed cotton buying and trading of lint cotton if the public sector companies were liquidated. Some GOE and HC officials argue that the large private sector trading companies have little interest in buying and selling ELS varieties, such as Giza 70. This is mainly due to past ALCOTEXA pricing of ELS varieties at unattractively high levels relative to the faster moving long staple varieties.⁴² Generally, world demand for LS varieties is stronger than demand for ELS varieties.

⁴¹ Note, however, that the private sector share of export commitments slipped to 15.5% of total lint cotton export commitments in 1999/2000. This share declined from February 2000 onward as the discounts on expedited shipment of ELS varieties enabled the public sector trading companies, holding almost all of the large ELS stocks, to increase their sales of Giza 70.

⁴² It used to be thought that private sector trading companies had no interest in supplying lint cotton to Egyptian spinners, most of whom are public. Hence, these traders would not buy LS varieties not destined for export, such as Giza 80/83. In 1999/2000, private companies bought 57% of the Giza 80/83 produced in Upper Egypt and ended up supplying most of it to domestic spinners.

The rule that public cotton trading companies must avoid financial losses, as well as the stringent accounting oversight of their activities, lead to a marketing system where prices are fixed and there is little flexibility to reduce lint export prices after ALCOTEXA declares opening prices in September of each season. This penalizes Egypt in competitive export markets, where the prices of competing lint fluctuate in response to world supply and demand conditions. *Therefore, the GOE objectives of keeping the public trading companies in business and trying to minimize their losses result in price inflexibility throughout the subsystem and serve to limit private sector participation.*

Although there has been no effort to privatize the public cotton trading companies, the Misr for Cotton Pressing Company of the CIT-HC was put out for tenders in the last quarter of 1999, with offers being evaluated in the first quarter of 2000. *Any further news?*

Mixed Record on Privatization of Public Textile Companies. In contrast to successful privatization of two public sector ginning companies, *privatization of spinning and weaving companies has had mixed success.* In Tranche I the GOE succeeded in privatizing two public textile companies, Unirab S&W and Kabo, and privatization of Alexandria S&W was well underway. Privatization of Alexandria S&W was completed (100% private ownership) during Tranche II, and Cairo Silk Company was liquidated and three units were leased (two in full, one in part) to domestic investors. Units of two other public sector textile companies were also leased to foreign investors. Dong II's ten-year lease of ESCO's best spinning unit in 1998 was a major achievement, leading to plant renovation, streamlining of the work force, investment in new spinning machinery, and increased productivity. The success of this unit is a model leasehold for the textile holding companies and should be replicated. In support of management and leasing contracts as viable privatization alternatives to IPOs and sales to anchor investors, APRP/RDI developed guidelines for the MPE, textile HC's, and affiliated textile companies during Tranche III. Attentive PEO involvement, evidence of Ministerial support, as well as the active participation of many AC's in the APRP/RDI workshops on leasing and management contracts in 1999, ensured the success of this activity and accomplishment of an important Tranche III benchmark.

*By mid-1999, privatization of textile companies had stalled.*⁴³ MPE made public announcements in the third quarter of 1999 that two of the better public sector spinning and weaving companies, STIA and Shebin El-Kom, were open for bids by prospective anchor investors. Offers were evaluated in the first quarter of 2000, but no action was taken. STIA was again offered for sale in the second quarter of 2000, but there were no bidders. It was re-advertised during the third quarter. Tenders were also advertised in the fourth quarter of 1999 for four spinning companies of the SWRMC-HC: Delta, Dakahlia, Sharkia and Damietta. Offers were being evaluated in the first quarter of 2000 for one of these companies, Damietta S&W, but no deal was concluded. As of late November 2000, the MPE advertised—with CIDA assistance— that Damietta S&W was again open for bids; three potential investors, all foreign companies, are preparing offers that will be opened in mid-December 2000.⁴⁴

⁴³ There were only 14 completed privatization transactions in the first three quarters of 1999, including a lease of the Menya El Kamh textile plant of the El Sharkeya Textile Company.

⁴⁴ Damietta S&W has four units, including two spinning units, one weaving unit, and a ready-made garment unit, 4000 workers, and machinery in reasonably good condition. The potential

Given the difficulties in privatizing spinning and weaving companies in 1999 and 2000, the MPE and SWRMC-HC decided on a restructuring program. As of the end of 1998, bank debt for 36 public sector textile companies stood at LE 5.8 billion, twice the level of revenue for 1998, net profit was LE -1.1 billion and retained earnings were LE -6.0 billion.⁴⁵ The restructuring program has been designed to take the debt of large unprofitable textile companies off the firm's books and transfer it to the SWRMC-HC, hire professional managers through management contracts to develop a restructuring plan for each company, and create an intermediary firm (between the HC and the managers under management contracts) that oversees the firm managers and represents the owners' interests. This intermediary firm, the Egyptian Company for Development of the Textile Industry (EDTI), was created in October 1999 by the HC, private industry experts, and banks with heavy exposure to loss-making public textile companies. EDTI has contracted with the SWRMC-HC to restructure Misr Helwan Spinning and Weaving Company and El Nasr El Mehalla Company, two large companies with heavy debts, and planned investment to rehabilitate plants of LE 115 million and LE 65 million respectively. The Holding Company is currently contracting with EDTI to restructure Shourbagui.

1999 was a disastrous year for the public sector textile companies, though half-year data for 2000 show that textile exports have turned around. Egypt fulfilled from 1% to 53% percent of its quotas in 1999 for textile products other than T-shirts to the EU and the U.S.⁴⁶, according to unpublished TCF data (see Table 3-6). Egyptian producers only met 35% of the EU yarn quota and 22% of the EU cloth quota in 1999. This was the lowest percentage for the five-year period (1995 to 1999) for which data are available. Only 53% of the yarn quota to the U.S. market was covered, lower only in 1996 (when 46% was filled). In addition, only 9% of Egypt's cloth export quota to the U.S. was met in 1999 (slightly worse than 10-17% of the 1996-1998 period), and only 1% of the pants quota, which was filled no lower than 90% for the 1995-1998 period. Clearly, 1999 was a very poor year for Egyptian textile producers/exporters.

Using higher-cost raw material, Egyptian lint cotton, the public companies could not match Asian producers, some of whom (Indonesia, Thailand) have steeply devalued their currencies since mid-1997. Two other big Asian producers, India and Pakistan, use much cheaper raw material in spinning (lint from short-staple cottons) and run more efficient mills. Once again (as in 1996/97 and 1997/98), inventories of yarn, cloth and finished textile products began to accumulate. The domestic market is reportedly saturated with Egyptian textile products and alleged illegal imports. Unable to sell their products in foreign markets, public textile companies had trouble obtaining finance to buy more raw material. By early 2000, the domestic spinning companies were on track to purchase far less Egyptian

investors are interested in producing RMCs for export.

⁴⁵ The restructuring of the textile industry is described in more detail in "Case Study: Textile Industry Restructuring Program" (see pp. 11-13) of the *Privatization in Egypt - Quarterly Review* for July-September 2000, prepared by the USAID-funded Privatization Coordination Support Unit (Carana Corporation).

⁴⁶ The quota system was put in place for exports to the EU in 1977 (yarn) and 1986 (garments). For the U.S., quotas were first applied in 1987 to garments, yarn, and women's T-shirts, to towels in 1991, to shorts and panties in 1993, and to men's T-shirts and shirts in 1994.

lint cotton in 1999/2000 than in 1998/99⁴⁷, when domestic lint consumption slipped from 4.6 million kentars (1997/98) to 3.7 million kentars (1998/99). In such a market, prospects for privatization are limited, even if the public companies are attractively priced. Investors have little interest in putting down large sums of money when the domestic market is saturated and Egypt is uncompetitive in foreign markets. This does not mean that Egyptian textile producers will never again be competitive in foreign markets. However, *into-spinning mill prices of Egyptian lint cotton will have to drop or imports of cheap short-staple lint cotton will need to increase*⁴⁸ *to make Egyptian spinners more competitive.*⁴⁹

3.3.7 Yarn Export Pricing

Delays in adjusting yarn export prices have contributed to the weakness of the public sector spinning industry. While the GOE does not officially set yarn and cloth export prices, there are industry committees that meet under the auspices of the TCF who do. These committees are staffed largely with holding company chairmen and public sector spinners and have token private sector representation. They set prices at levels designed to protect the highest-cost, least efficient textile producers. They also are pressured by the EU to make only modest price cuts in order to avoid triggering EU countervailing duties. The TCF and the textile industry were able to balance these pressures and export in 1996/97 and 1997/98, but the Asian devaluations allowed Asian exports to undercut Egyptian export prices by a wide margin in 1998/99. APRP has tried to be sensitive to the GOE predicament of wishing to avoid meddling in pricing of textile products and the need to prevent imposition of countervailing duties. It is

⁴⁷ Local mills had taken delivery of only 2.5 million kentars as of 30 June 2000. Nearly 1.2 million kentars were supplied by private traders, while 1.3 kentars were supplied by public trading and ginning companies. Domestic mill use in 1999/2000 was probably slightly over 3.0 million kentars, while 4.0 million kentars used to be considered the minimum level of domestic industry operation.

⁴⁸ In January 2000, comparative lint cotton prices, delivered to domestic spinning mills, were as follows: Giza 80/83 - LE 264/kentar; Greek imported lint - LE 240-250/kentar; Sudanese lint (*acala*) - LE 230/kentar; and Syrian imported lint - LE 210/kentar.

⁴⁹ Some analysts argue that the industry committee that meets at TCF and sets minimum yarn prices sets them at high levels that do not reflect operating costs. They maintain that the committee takes total running costs of keeping large public sector spinning companies open (salaries to all workers and high overheads) into account.

**Table 3-6: Egyptian Export Quotas & the Percentage Coverage Achieved for the European Union,
United States and Turkey from 1995 to 1999**

(quotas in mt)

Export Zone/ Textile Product	Unit	1995		1996		1997		1998		1999	
		Quota	Coverage	Quota	Coverage	Quota	Coverage	Quota	Coverage	Quota	Coverage
European Union											
Cotton Yarn	Ton	44,000	80%	52,600	51%	54,400	83%	56,500	52%	58,500	35%
Cotton Cloth	Ton	16,000	75%	18,600	78%	19,250	78%	20,000	28%	20,700	22%
America											
Cotton Yarn	Ton	7,800	92%	8,400	45%	9,090	77%	11,721	95%	11,036	53%
Cotton Cloth	Million m ²	80	53%	91	10%	98	17%	108	12%	119	9%
T-shirts	Million dozen	2	80%	2	91%	3	117%	3	97%	3	86%
Shirts	Million dozen	1	118%	1	60%	1	47%	1	53%	1	49%
Pants	Thousand dozen	18	110%	19	90%	19	97%	19	93%	19	1%
Cleaning Towels	Ton	1,180	63%	1,270	96%	1,370	96%	2,000	94%	2,000	75%
Turkey											
Cotton Yarn	Ton			4,850	27%	5,020	45%	NA	NA	5,377	22%
Cotton Cloth	Ton			1,000	11%	1,035	12%	NA	NA	1,109	21%

Source: Textile Consolidation Fund (TCF), unpublished data.

truly a dilemma, where Egypt must lower textile prices to be competitive but face the potential problem of EU protests and countervailing duties over any more than marginal price cuts.

TCF lowered yarn export prices as of 20 September 1999 by 2.8 to 7.8 percent on carded and combed cotton yarn, spun from long-staple cotton, of counts ranging from NE 8 to NE 100 (see Table 3-7 for minimum prices for 100% cotton yarn and Table 3-8 for blended cotton/polyester yarn for the past three marketing seasons). These decreases were somewhat less than those made in 1998/99 relative to 1997/98, which ranged from 1.3 to 9.9 percent. Minimum prices for blended cotton yarn decreased 4.5 to 8.3 percent in 1999/2000 relative to the previous year, and from 12.1 to 21.7 percent in 1998/99 relative to 1997/98.⁵⁰ The industry response to these decreases in export prices was weak in 1999 but stronger in the first half of 2000. TCF kept minimum yarn export prices at the 1999/2000 levels for 100% cotton yarn in 2000/01 but raised prices for blended cotton yarn from 7% to 9%, depending on the category (carded vs. combed and yarn count). The reason for raising blended yarn prices in 2000/01 appears to be related to the strong demand for that category during the first six months of the year 2000; blended ring yarn exports were higher during this period than during all of 1998 and all of 1999.

TCF statistics (volume of exports in Tables 3-9a and 3-9b; value of exports in Tables 3-10a and 3-10b) show that cotton yarn exports decreased from 71,357 mt in 1997 to 52,364 mt in 1998 and 37,291 mt in 1999. Cotton fabric exports also decreased from 24,806 mt in 1997 to 11,884 mt in 1998 and 9,991 mt in 1999.⁵¹ Yarn exports were on track to return to 1998 levels by 2000, while fabric exports appeared headed toward pre-1998 levels in 2000.

One striking trend from the export statistics is that both yarn and fabric exports declined even more sharply in proportional terms, in both volume and value terms, from 1990 to 1999. Yarn fell from 68.8% of export volume to 38.8%, while it fell 62.9% of the value of textile exports in 1990 to only 19.7% in 1998. Fabric exports slipped from 20.6% of total export volume in 1991 to 10.4% in 1999; the decline in the proportion of total value was even sharper from 17.5% to 6.5%. In contrast, exports of knits, made-ups and garments increased from 12.0% of total volume in 1990 to 44.9% in 1999, with the corresponding rise in value shares from 21.4% to 65.5%. Lint exports, expressed in value terms, fluctuated over the past decade from a low of 9.5% in 1991 to a high of 41.0% in 1993 and a second highest proportion of 31.3% in 1999.

⁵⁰ Minimum prices for yarn spun open-ended from 50% waste were lowered 0.9% to 6.1% from 1998/99 to 1999/2000. This yarn runs from NE count 6 to count 20.

⁵¹ Note that some categories of cotton textile product exports rose from 1997 to 1998, including tricot (knits), pile, RMCs, and tailored garments. These products use primarily imported cotton or blended yarn.

Table 3-7: TCF Minimum Prices for 100% Egyptian Cotton Yarn (from Long-Staple Varieties) Exported to All Countries

\$/kg

Yarn Count	1999/00				1998/99				1997/98			
	Cotton Group: G 85-86-87-88-89				Cotton Group: Giza 75				Cotton Group: Giza 75			
	Carded		Combed		Carded		Combed		Carded		Combed	
	Single	Double	Single	Double	Single	Double	Single	Double	Single	Double	Single	Double
6												
8		3.49		3.94		3.68		4.13		3.96		4.41
10		3.50		3.95		3.71		4.16		3.99		4.44
12		3.52		3.97		3.72		4.17		4.02		4.47
14		3.53		3.98		3.74		4.19		4.06		4.51
16		3.55		4.00		3.76		4.21		4.09		4.54
18		3.57		4.02		3.78		4.23		4.11		4.56
20		3.58		4.02		3.80		4.25		4.15		4.60
24	3.08	3.61	3.53	4.06	3.18	3.84	3.63	4.29	3.53	4.18	3.98	4.63
30	3.25	3.82	3.70	4.27	3.35	4.05	3.80	4.50	3.72	4.39	4.17	4.84
32	3.40	3.99	3.85	4.44	3.50	4.22	3.95	4.67	3.83	4.51	4.28	4.96
36	3.61	4.22	4.06	4.67	3.72	4.48	4.17	4.93	3.92	4.63	4.37	5.08
40	3.82	4.47	4.27	4.92	3.94	4.74	4.39	5.19	4.15	4.89	4.60	5.34
50			5.26	5.99			5.59	6.49			5.76	6.61
60			5.76	6.53			6.12	7.08			6.31	7.17
70			6.28	7.14		6.45	6.67	7.72			6.88	7.82
80			6.77	7.70		6.88	7.20	8.34			7.42	8.47
90			7.28	8.30			7.73	8.98			7.97	9.12
100			7.79	8.89			8.28	9.63			8.54	9.78

Source: Textile Consolidation Fund.

Notes: 1) Before 1999/00, minimum prices were reported for yarn spun from Giza 75. Giza 75 was not produced after 1997.

2) Prices for 1998/99 are for yarn destined for the EU market. For the other two years, they are for yarn destined for all countries.

3) Note that TCF minimum prices did not change in 2000/01 for 100% cotton yarn spun from long staple varieties (Giza 85 and 89)

and medium staple varieties (imported Greek and Syrian lint).

Table 3-8: Minimum Prices for Blended Cotton Yarn Exported to All Countries, 1997/98 to 2000/2001

\$/kg

Yarn Count	1997/98				1998/99				1999/00				2000/2001			
	Carded		Combed		Carded		Combed		Carded		Combed		Carded		Combed	
	SGL	DBL	SGL	DBL	SGL	DBL	SGL	DBL	SGL	DBL	SGL	DBL	SGL	DBL	SGL	DBL
6																
8		3.18		3.38		2.73		2.93		2.53		2.73		2.72		2.94
10		3.21		3.41		2.76		2.96		2.54		2.74		2.73		2.95
12		3.24		3.44		2.77		2.97		2.56		2.76		2.75		2.97
14		3.28		3.48		2.79		2.99		2.57		2.77		2.76		2.98
16		3.31		3.51		2.81		3.01		2.59		2.79		2.78		3.00
18		3.33		3.53		2.83		3.02		2.61		2.81		2.80		3.02
20		3.37		3.57		2.85		3.05		2.62		2.82		2.86		3.03
24	2.75	3.40	2.95	3.60	2.23	2.89	2.43	3.09	2.12	2.65	2.32	2.85	2.31	2.84	2.53	3.06
30	3.00	3.67	3.20	3.87	2.35	3.05	2.55	3.25	2.23	2.81	2.43	3.01	2.44	3.06	2.66	3.23
32	3.09	3.77	3.29	3.97	2.45	3.17	2.65	3.37	2.33	2.92	2.53	3.12	2.55	3.14	2.77	3.36
36	3.30	4.01	3.50	4.21	2.60	3.36	2.80	3.56	2.47	3.08	2.67	3.28	2.71	3.32	2.93	3.54
40	3.47	4.21	3.67	4.41	2.76	3.56	2.96	3.76	2.62	3.27	2.82	3.47	2.78	3.52	3.09	3.74
50			4.66	5.51			3.91	4.81			3.71	4.44			3.95	4.68
60			5.11	5.97			4.28	5.24			4.07	4.84			4.32	5.09
70			5.57	6.51			4.67	5.72			4.44	5.35			4.71	5.57
80			6.01	7.06			5.04	6.18			4.79	5.72			5.08	6.01
90			6.45	7.60			5.41	6.66			5.14	6.16			5.46	6.48
100			6.92	8.16			5.80	7.15			5.51	6.61			5.84	6.94

Source: Textile Consolidation Fund

Notes: 1) Blended cotton is mixed cotton/polyester in the ratio of 50/50 or 65/35.

2) A 3% commission is applied to all export sales.

3) SGL = single ply yarn ; DBL = double ply yarn.

Table 3-9a: Volume of Egyptian Exports of Yarn, Fabric and Textile Products, by Category

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Yarn	76,237	80,585	69,224	66,706	111,864	71,789	48,996	71,357	52,364	37,291	51,520
Fabrics	21,207	24,971	17,527	22,814	31,302	23,917	21,020	24,806	11,884	9,991	18,168
Terry	700	1,074	1,070	1,577	2,185	2,737	2,782	3,628	4,452	5,491	5,718
Knits	5,851	6,720	6,776	10,007	12,325	14,423	17,100	18,704	21,299	19,678	21,224
Made-Ups	3,762	4,084	3,597	4,950	7,932	11,333	12,492	8,693	8,415	7,820	9,730
Woven Garments	3,723	5,006	6,240	9,454	10,277	12,940	13,857	13,306	15,432	15,629	19,430
Knits, Made-Ups & Garments	13,336	15,790	16,613	24,411	30,530	38,696	43,449	40,703	45,146	43,127	50,384
Carpeting								3,000	4,158	5,650	11,338
Textiles & Apparel	110,780	121,346	103,364	113,931	173,696	134,402	113,465	139,866	113,552	96,059	131,410
Cotton Lint	42,961	17,950	16,600	18,000	116,950	66,400	18,801	46,442	69,523	108,328	107,069

Source: Data from TCF with adaptations by El Sayed Dahmouch in forthcoming APRP/RDI on the competitiveness of yarn production in Egypt.

Note: The estimates for the year 2000 take the actual export data for the first six months and multiply them by two.

Table 3-9b: Percentage Volume of Exports of Egyptian Yarn, Fabric and Textile Products, by Category

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Yarn	68.8%	66.4%	67.0%	58.5%	64.4%	53.4%	43.2%	51.0%	46.1%	38.8%	39.2%
Fabrics	19.1%	20.6%	17.0%	20.0%	18.0%	17.8%	18.5%	17.7%	10.5%	10.4%	13.8%
Terry	0.6%	0.9%	1.0%	1.4%	1.3%	2.0%	2.5%	2.6%	3.9%	5.7%	4.4%
Knits	5.3%	5.5%	6.6%	8.8%	7.1%	10.7%	15.1%	13.4%	18.8%	20.5%	16.2%
Made-Ups	3.4%	3.4%	3.5%	4.3%	4.6%	8.4%	11.0%	6.2%	7.4%	8.1%	7.4%
Woven Garments	3.4%	4.1%	6.0%	8.3%	5.9%	9.6%	12.2%	9.5%	13.6%	16.3%	14.8%
Knits, Made-Ups & Garments	12.0%	13.0%	16.1%	21.4%	17.6%	28.8%	38.3%	29.1%	39.8%	44.9%	38.3%
Carpeting								2.1%	3.7%	5.9%	8.6%
Textiles & Apparel	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cotton Lint	38.8%	14.8%	16.1%	15.8%	67.3%	49.4%	16.6%	33.2%	61.2%	112.8%	81.5%

Source: Percentages calculated from table 3-9a.

Table 3-10a: Value of Exports of Egyptian Cotton Yarn, Fabric, and Other Textile Products

(in '000 LE)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Yarn	958,740	989,528	914,250	763,698	1,313,592	1,109,321	738,253	1,018,802	797,667	516,199	671,542
Fabrics	228,762	315,290	237,006	287,531	423,051	384,063	318,584	435,663	227,335	168,871	318,500
Terry	10,231	18,029	20,382	28,552	38,762	53,399	55,421	76,751	99,338	118,977	124,084
Knits	175,425	244,364	255,954	367,383	433,133	527,022	645,154	769,485	887,412	891,287	955,080
Made-Ups	45,387	60,663	56,409	81,302	138,730	221,084	244,959	164,292	156,621	147,646	174,248
Woven Garments	105,287	174,503	235,498	342,233	396,854	493,952	537,241	576,981	658,299	676,314	776,198
Knits, Made-Ups & Garments	326,099	479,530	547,861	790,918	968,717	1,242,058	1,427,354	1,510,758	1,702,332	1,715,247	1,905,526
Carpeting								57,270	81,315	97,745	200,020
Textiles & Apparel	1,523,832	1,802,377	1,719,499	1,870,699	2,744,122	2,788,841	2,539,612	3,099,244	2,907,987	2,617,039	3,219,672
Cotton Lint	239,815	171,736	148,170	767,558	495,407	264,920	404,094	420,000	576,526	818,626	764,056

Source: Data from TCF with adaptations by El Sayed Dahmouh in forthcoming APRP/RDI on the competitiveness of yarn production in Egypt.

Note: The estimates for the year 2000 take the actual export data for the first six months and multiply them by two.

Table 3-10b: Percentage Value of Exports of Egyptian Yarn, Fabric and Textile Products, by Category

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Yarn	62.9%	54.9%	53.2%	40.8%	47.9%	39.8%	29.1%	32.9%	27.4%	19.7%	20.9%
Fabrics	15.0%	17.5%	13.8%	15.4%	15.4%	13.8%	12.5%	14.1%	7.8%	6.5%	9.9%
Terry	0.7%	1.0%	1.2%	1.5%	1.4%	1.9%	2.2%	2.5%	3.4%	4.5%	3.9%
Knits	11.5%	13.6%	14.9%	19.6%	15.8%	18.9%	25.4%	24.8%	30.5%	34.1%	29.7%
Made-Ups	3.0%	3.4%	3.3%	4.3%	5.1%	7.9%	9.6%	5.3%	5.4%	5.6%	5.4%
Woven Garments	6.9%	9.7%	13.7%	18.3%	14.5%	17.7%	21.2%	18.6%	22.6%	25.8%	24.1%
Knits, Made-Ups & Garments	21.4%	26.6%	31.9%	42.3%	35.3%	44.5%	56.2%	48.7%	58.5%	65.5%	59.2%
Carpeting								1.8%	2.8%	3.7%	6.2%
Textiles & Apparel	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cotton Lint	15.7%	9.5%	8.6%	41.0%	18.1%	9.5%	15.9%	13.6%	19.8%	31.3%	23.7%

Source: Percentages calculated from table 3-10a.

Referring to a different set of statistics (see Table 3-11), exports of blended cotton yarn also declined steeply from 17,416 mt in 1994 to 1,638 mt in 1998, although they were headed higher in 2000 (4,692 mt for the first six months). Exports of all categories of blended cotton products fell steadily from 1994 to 1998, but again by 2000 they appeared to be returning to early 1990s' levels (7,121 mt for the first six months). In contrast, exports of synthetic apparel and made-ups rose.⁵² In volume and value terms, however, exports of 100% cotton yarn and all-cotton textiles are far more important categories than exports of synthetic and blended cotton products.

According to one source, the difficulty Egyptian textile producers have had in filling export quotas and the decreasing competitiveness of the industry in world markets since 1998/99 has led some public spinners to chisel on export prices. Private spinners seem to be less bound by the minimum prices, although exporting under quota requires a TCF approval. Fraudulent paperwork can be submitted, however, to show that an exporter complies with minimum export prices. TCF lowering of minimum export prices does not appear to be enough to enable the Egyptian (public sector) textile industry to recover, re-attaining export levels of earlier years.

There is a duty drawback system in place on imports of yarn and cloth, generally from lower-cost producers in Asian countries. This system is reportedly cumbersome. Private weavers and RMG manufacturers who use imported yarn often do not bother to apply for the drawback, because they can get customs duties refunded when they export the finished products. Although this involves short-run capital outlay (on duties) on their part, their strategy is rational and greatly lowers transactions costs. APRP/RDI did a study of the impact of lowering the tariff on yarn in.

Tranche I that showed that it would hurt the domestic spinning industry. The GOE is complying with GATT agreements to lower tariffs on imported textile products, though the reductions are very gradual and will not have any bite until 1 January 2001, when the tariff on yarn imports will drop to 27% (below the 30% level in place since 1996) and eventually to 15% by 2005. In 2001, tariffs on imported cotton fabric and apparel/made-ups will also drop below levels in place since 1996. This will take place for synthetic fibers in 2002.

⁵² Note that both these categories—blended cotton products and synthetic products—represented relatively small proportions of the total volume and value of textile product exports.

Table 3-11: Exports of Egyptian Yarn and Cotton, Synthetic and Blended Textile Products, 1993-2000

Item	1993		1994		1995		1996		1997		1998		1999		2000*	
	Tons	LE 1000	Tons	LE 1000	Tons	LE 1000	Tons	LE 1000	Tons	LE 1000	Tons	LE 1000	Tons	LE 1000	Tons	LE 1000
Ring Yarn	57,723	680,427	92,979	1,127,401	63,030	1,003,961	41,152	655,756	62,608	936,021	48,184	760,532	31,418	469,095	18,963	281,516
Open-end Yarn			202	1,599	187	3,483	42	428	34	464	83	917	199	2,151	113	1,037
Total Cotton Yarn	57,723	680,427	93,181	1,129,000	63,217	1,007,444	41,194	656,184	62,642	936,485	48,267	761,449	31,617	471,246	19,076	282,553
Fabrics (Textiles)	21,188	260,132	28,057	371,358	19,377	307,645	17,205	255,768	19,188	302,388	8,724	153,746	6,801	106,009	5,963	92,741
Knitted Products (Tricot)	10,007	367,383	12,325	433,140	14,421	527,026	17,100	645,154	18,861	772,990	21,400	891,364	19,689	891,506	10,625	477,798
Terry Toweling (Towels)	1,577	28,554	2,185	38,703	2,737	53,398	2,782	55,421	3,628	76,751	4,452	99,338	5,491	118,977	2,859	62,042
Apparel (RMGs)	9,413	341,285	10,266	396,415	12,913	492,475	13,446	522,804	11,831	483,282	13,423	525,782	13,197	561,841	9,005	356,028
Made-ups (Tailored)	4,007	59,138	6,415	101,543	9,065	161,788	8,900	161,664	7,488	142,256	7,522	141,135	6,718	124,345	4,178	72,895
Cotton Wool (Medical Cotton)	1,390	10,179	1,082	7,909	1,811	13,273	844	6,877	577	5,484	535	5,037	362	3,153	203	1,825
Total Cotton Products	47,582	1,066,671	60,330	1,349,068	60,324	1,555,605	60,277	1,647,688	61,573	1,783,151	56,056	1,816,402	52,258	1,805,831	32,833	1,063,329
Artificial & Synthetic Fibers	125	606	104	484	134	1,008	340	2,227	310	1,632	169	916	78	852		
Filament Yarn	69	800	22	250	115	1,659	111	1,396	2,711	23,434	2,200	17,060	1,198	7,163	1,595	10,057
Staple Yarn	788	8,556	1,125	9,612	162	1,884	1,331	11,432	229	2,122	90	777	279	2,790	397	5,239
Artificial & Synthetic Fabrics	12	539	11	453	16	296	31	1,461	1,914	77,487	1,481	47,274	1,607	44,666	1,371	46,728
Synthetic Apparels			1,601	38,680	2,265	59,222			975	70,946	1,823	121,317	2,193	102,742	559	23,284
Synthetic Made-ups***	849	20,671					3,592	83,270	3,202	79,004	5,083	99,339	6,051	106,233	5,815	103,291
Total 100% Synthetic Products	1,843	31,172	2,863	49,479	2,692	64,069	5,405	99,786	9,341	254,625	10,846	286,683	11,406	264,446	9,737	188,599
Blended Ring Yarn	7,932	71,295	17,397	172,777	7,795	99,932	6,458	70,501	5,453	54,887	1,629	17,384	4,116	34,125	4,689	37,901
Blended Open-end Yarn	1	6	19	161	5	63	13	136	15	142	9	81	3	23	3	21
Blended Fabrics	1,644	23,984	3,267	51,479	4,526	76,122	3,784	61,256	3,547	52,273	1,578	22,363	1,572	17,977	1,737	19,523
Blended Apparel	41	948	9	441	40	1,605	411	14,437	502	22,759	129	7,611	239	11,730	151	8,787
Blended Made-ups	94	1,493	21	557				24	3	302	25	1,051	701	14,813	541	10,948
Total Blended Products	9,712	97,726	20,713	225,415	12,366	177,722	10,666	146,354	9,520	130,363	3,370	48,490	6,631	78,668	7,121	77,180
Grand Total	116,860	1,875,996	177,087	2,752,962	138,599	2,804,840	117,542	2,550,012	143,076	3,104,624	118,539	2,913,024	101,912	2,620,191	68,767	1,611,661

Source: TCF, quarterly bulletins and unpublished statistics (for 2000).

* Statistics for January to June 2000 are from the TCF files.

** Filament yarn includes synthetic silk thread and synthetic thread.

*** This product category includes synthetic carpets.

3.3.4 Private Sector Response to Policy Reforms

3.4.1 Subsector Performance

The supply response to GOE policies is summarized in Table 3-12 below.

Table 3-12: Production Response to GOE Policies is from 1996/97 to 1999/2000

Response Variable	Long Staple	Extra Long Staple	Comments
Area Planted	? 26.6%	? 49.9%	ELS area was high in 1998/99. Area planted in 1999 lowest in 20 th century.
Production	? 26.4%	? 52.7%	
Yields	? slightly overall, though Gizas 80, 83, 85 decreased	? 5.7%	Average reported yields were much higher in the early 90s.

Source: MALR statistics.

Private sector shares rose in the following cotton marketing and processing activities:

- ? Seed Cotton Marketing. The private sector share increased from nil in 1996/97 to 44.7% in 1999/2000. Yet private participation was higher in 1995/96, somewhere between 52.8% (Ender et al., 1999) and 58.2% (Holtzman and Mostafa, 1998), during a marketing season characterized by a small crop, high world and export prices, and hence upward pressure on domestic prices.
- ? Ginning. The private share of lint cotton ginned (output measure) by the private sector gins increased from 13.2% in 1996/97 to 39.6% in 1998/99. The private gins' share of seed cotton input into ginning was an estimated 36.7% in 1999/2000.
- ? Lint Exports. Private share increased from 3.3% in 1995/96 to 25.1% in 1997/98 and 1998/99. It declined to 15.5% in 1999/2000, however, due largely to the export ban on three LS varieties and the fact that the public companies held all the stocks of Giza 70, the only (ELS) variety exported in significant quantities from February 2000 onward.
- ? Spinning. The private share expanded from an estimated 3.7% in 1990/91 to 22.2% in 1996/97 and 30.8% in 1998/99. Based on deliveries of Egyptian lint cotton to spinners, private spinners had received 28.9% of the Egyptian crop by 30 June 2000. This should be viewed as a low estimate of the private spinners' share, because it does not include all the private spinners (not enumerated by the HC).

The volume of lint exports increased from 18,799 mt in 1995/96 to 108,482 mt in 1998/99 (actual shipments). Export commitments for 1999/2000 were 107,146 mt as of 19 September 2000. The value of lint exports declined in nominal terms from 1994 to 1997 (see CAPMAS figures reported in

A Baseline of APRP Progress Indicators, 1990-1997), but rose sharply in 1998 and 1999 as both the volume and value of lint exports increased. Nominal revenues for lint exports were highest during the decade of the 1990s in 1999 (at LE 816.1 million), though this was slightly lower in real terms than in 1990 and 1994.

Yarn export volume reached its highest level during the 1990s in 1994, when 111,764 mt of 100% cotton and blended yarn were exported.⁵³ This dropped to 71,189 mt in 1995 and further to 48,996 mt in 1996 before rising to 71,357 mt in 1997. Exports dropped even lower in 1998 and 1999 to 52,364 mt and 37,291 mt, the lowest level of the decade.

Total yarn export value declined 44.3% in nominal terms from 1994 to 1996 and then rose 36.4% in 1997 (but still remained 24.0% below the 1994 level). Relative to 1997, yarn export volume and value declined in 1998 and collapsed in 1999. Export levels (and to a lesser extent revenues) appeared to be recovering in the first half of 2000 (based on data for the first six months).

Total production of cotton and blended yarn was 266,946 mt in 1991/92 and remained within a relatively narrow range (239,447 to 281,127 mt) from 1991/92 through 1996/97. Domestic output dropped to 200,109 mt 1997/98 and 201,959 mt in 1998/99. Given the relatively constant output of yarn during the 1990s through 1996/97 and the limited capability of the domestic market to absorb large increases in domestic supplies, it is clear that years of poor export performance led to inventory build-ups.

3.4.2 Private Sector Investments in Gin Improvements, Presses and Spinning Mills

Ginning.⁵⁴ Privatization and liberalization have led to some reduction in ginning capacity, as 10 gins (with 561 ginning stands) have been closed.⁵⁵ Most of these gins were small, old gins in urban areas that operated with dilapidated equipment in congested areas. Given the continued existence of excess capacity in the ginning industry, one would expect gin closures and relatively little new investment. This reduction in capacity has been partly offset by Nefertiti's investment in a new gin in Minya (one gin with 60 stands, moved from a closed Arabeya Ginning Company gin in the Delta).

⁵³ Other than 1994, yarn exports stayed within the narrow range of 66,706 to 80,585 mt from 1990 to 1995, averaging 69,948 mt. Therefore, by excluding the exceptionally strong export year of 1994, when 110,739 mt were shipped, the export volume of 68,110 mt in 1997 is close to the mean for the 1990s (66,502 mt, not including 1994).

⁵⁴ See Krenz et al. (2000) for a detailed discussion of gin closures, new investments, and employment at private and public gins.

⁵⁵ Three gins of the Arab Ginning Company were closed (one not included in the privatization transaction) from 1996 on. In addition, six public sector gins were also closed. The Baraka Gin, established by the Egypt Company in 1995, operated for two years and ceased operating in 1997.

The fact that there have been gin closures is positive evidence of a rational market response to past public sector over-investment in ginning capacity. The implicit threat of closures and layoffs,⁵⁶ as well as the public sector fear of private buyers making money on land sales, have brought the privatization program to an impasse (see Krenz et al., 2000). Excess capacity in the three remaining public sector ginning companies needs to be eliminated, but privatization of these companies is currently stalled on the issues of valuations (of gins and land), whether to sell the land, and whether private buyers have the right to close down gins.

Arab Ginning Company has invested significant resources in upgrading ginning and pressing operations at many of its gins (see Krenz et al., 2000), including improving seed cotton cleaning at nine of its gins,⁵⁷ and adding of UD bale presses at six gins, as well as repressing facilities at the Baraka Gin, purchased from another private company. It also hired quality control inspectors, who are stationed at its gins. Nile Ginning made improvements in three of its gins, adding UD bale presses (for cotton prepared for export) and *farfarra* facilities. The public sector ginning companies have done little other than Delta Ginning Company allowing Nassco Cotton Trading Company to install UD bale presses at three gins.

Investments in UD Bale Presses at Gins. Several ginning companies have invested in UD bale presses at gins. Arab Ginning has added UD presses at six operating gins and put two UD presses and three *farfarra* rooms at the Baraka Gin on the Desert Road, creating an export staging operation that can be used by other exporting companies. Nassco operates UD presses at three gins of the Delta Ginning Company. Nile Ginning has invested in three UD presses that can be used to press export bales. Any exporter can bring his hydraulically pressed lint cotton (ginned at other gins) to the three Nile Company gins to perform *farfarra* and repressing. These 14 UD bale presses have been put in service at gins serving export markets to eliminate the need for costly *farfarra* and repressing at the public sector Pressing Company in Alexandria, to reduce shipping costs,⁵⁸ and to comply with international specifications.⁵⁹

New Spinning Mills. In examining the creation of new jobs in private spinning, MVE uncovered significant new investment (see Holtzman et al., 2000). A small part of this investment is in modern mills that spin medium to high counts for export markets. A larger part is in mills that spin waste into low-

⁵⁶ In none of the cases of gin closures by Arab Ginning and Nile Ginning were workers laid off. They were transferred to other gins. Arab Ginning has downsized its labor force through early retirement buyouts of redundant employees (318 of the original 1,068 permanent workers have been retired).

⁵⁷ Arabeya Ginning is considering closing three more gins, of which one is in downtown (congested) Fayoum. The equipment from this gin would be moved to a new gin, to be constructed on desert land, in Fayoum.

⁵⁸ UD bales are denser than steam-pressed Egyptian bales. This leads to economies in truck (domestic) and container (international sea freight) transport.

⁵⁹ Although there is no one uniform cotton bale size, USDA and other agencies refer to “statistical bales” of 480 lbs. APRP/RDI examined USDA data on U.S. pima bales that showed a range of 460-520 lbs., with the mean falling around 500 lbs. (personal communication, Edgar Ariza-Nino). UD bales in Egypt probably fall within the same range, although we lack data on this.

count, open-end yarn used in carpets, blankets, coarse fabric, and other low-count products. MVE (see July 1999 *Verification Report*, write-up of Benchmark B3) estimated that the private sector created 874 new jobs in the “new” spinning sector, 972 jobs in the traditional spinning sector in Fowah, and 619 jobs in ginning for a total of 2,465 new jobs from May 1998 to May 1999. Last, privatization of public sector textile companies has resulted in no new net job creation, though it has created opportunities to train workers, upgrade production, and improve the quality of outputs. It is not clear if workers who took early retirement from public companies later took jobs at private sector textile companies; some public managers did retire and go to work for private spinners.

3.5 Lessons Learned from the Cotton/Textile Liberalization and Privatization Experience in Egypt

Privatization needs to follow upon early liberalization steps, particularly when liberalization takes place gradually over many years. The first steps of liberalization need to precede privatization, because private traders and investors must be convinced that a government is serious about liberalization and appears unlikely to reverse course. Policy reversals and back-sliding heighten uncertainty, which will scare off prospective private investors. As cotton subsector liberalization got underway in 1994/95 and 1995/96 with much fanfare (three new laws), privatization needed to follow relatively quickly on liberalization successes. World cotton prices were also high and rising during these years, so investing in the subsector looked attractive to private entrepreneurs (see next lesson). The first ginning and spinning company privatizations did take place in 1996/97, so the privatization process did begin to follow liberalization with a reasonable lag, but GOE intervention in pricing and export marketing in 1995/96 and 1996/97 worked at cross-purposes to MPE privatization efforts.

There were policy reversals in 1995/96 when the GOE declared a seed cotton buying freeze for several weeks in October 1995 and forbade exports until the lint requirements of the public sector domestic spinning mills were satisfied. Once exports of long-staple cotton were allowed (LS exports were not permitted) for a brief period in February 1996, Egypt shipped a low volume of ELS cotton (18,799 mt, the lowest level of exports since 1992/93) to foreign buyers, but the private sector share was minimal (3.3%). The GOE also declared very high support prices before planting in 1996, which was followed by a steady decline in world cotton prices during the 1996 growing season and into the 1996/97 marketing season. Politically committed to announced high producer prices, the GOE could not adjust them downward in response to changing world market conditions. This removed any incentive for private traders to buy seed cotton, so private sector participation in seed cotton marketing dropped to virtually nil during 1996/97. These policy-related developments signaled to private investors that the cotton policy reforms were very partial and could be undercut by a decree or GOE political announcement. This realization undoubtedly caused prospective investors to reconsider bids on textile companies offered for privatization.

The GOE has adopted an ultra-gradualist model of liberalization and privatization for the Egyptian cotton economy. On first glance, this would appear to be the most logical and prudent course (particularly when the flawed experiences of Eastern Europe and the NIS are considered). Cautious, gradual change is not always best, however. World market conditions change from year to year and can undercut liberalization and privatization efforts. Waiting too long to privatize government gins and mills can lead to alternative new private sector investments, especially when a government shows little

flexibility and creativity in trying to solve thorny issues such as labor redundancy, debt and high land values. As liberalization proceeds but privatization remains stalled due to unresolved issues, private sector investors will be less willing to wait for reasonable privatization opportunities, they will question the government's resolve, and they will make other plans to invest in private facilities. Private sector investment in commercial rice mills from 1995 to 1998, while none of the public sector rice milling companies were offered for privatization, is the most striking illustration of this point. Initial evidence of private sector investment in new spinning mills appears to be an early warning that new private investment may be in the process of displacing and superseding privatization of public spinning companies. In the final analysis, time is slipping away and the GOE needs to seize the day with some bold privatization initiatives, experiments and successes.

It is far easier to privatize public companies when world prices (and returns) are high than when prices are cyclically low. This is particularly true for the public spinning and weaving companies. Since 1997/98, Egyptian exports of yarn and fabric have declined, as economic distress in Asia led to large currency devaluations and declining prices for Asian exports. While TCF has adjusted minimum yarn prices downward in response to this development, the adjustments have not been enough to keep Egyptian exporters competitive. This has led to inventory accumulation, poor export sales, and decreased capacity utilization. Under these circumstances, privatization of public textile companies is virtually impossible.

Once producer subsidies are put in place, they become very hard to remove, particularly as world prices decline. The GOE declared high support prices in 1995/96 and 1996/97 that led to massive GOE subsidies once world prices declined in 1996. These prices were adjusted downward by changing grade and out-turn requirements needed to obtain the full (declared) support prices in 1997/98. After a season (1998/99) of no subsidies, subsidies were put in place in 1999/2000 and cost an estimated LE 200-250 million. With rising world cotton prices, seed cotton prices in 2000/01 were set at levels that do not require significant producer subsidies.

Governments need to stay the course on liberalization. For the reasons discussed above in the accounts of policy reversals in 1995/96 and policy interventions that removed incentives for private sector participation in cotton marketing in 1996/97,⁶⁰ the GOE lost several years in liberalizing the cotton economy. From early 1996 on, declining world cotton lint, yarn and fabric prices, coupled with unusually low prices for competing synthetic fiber (particularly polyester), compounded the difficulties faced by cotton traders and spinners. If the GOE had refrained from intervening in domestic and export cotton marketing in 1995/96, largely to protect the domestic spinning industry, the course of events and subsequent response to GOE privatization attempts may have been quite different.

Partial, piece-meal liberalization may lead to unsatisfactory outcomes. Private traders and investors will participate in any economic activity where there are opportunities to earn profits. Windfall gains (often alleged by public officials) are not necessary. Announcements of liberalization need to be followed up with actual implementation and government-provided information about the new business opportunities and how to take advantage of them. In other words, effective *policy extension*

⁶⁰ GOE interventions in 1995/96 contributed to the demise of two prominent private sector players in cotton marketing and export.

needs to be done to ensure transparency and encourage the broadest possible participation (as opposed to deals based on privileged access to inside information, decision-makers and implementing agencies). In a top-down, highly centralized government, such as Egypt's, the GOE's policy extension role is often overlooked or given short shrift.

The Egyptian cotton/textile subsector is characterized by steadily increasing private sector participation in seed cotton buying and lint cotton export, considerable (but stalled) private sector involvement in ginning, limited private sector investment in spinning,⁶¹ and heavy private investment in weaving, knitting and RMG manufacture. The private sector textile industry, other than spinning, uses relatively little Egyptian cotton and far more imported cotton and blended yarn and fabric, as well as polyester and other synthetics, to produce textile products for export. Export quotas to EU and US markets for items such as T-shirts, made using imported yarn, tend to get quickly filled, while yarn quotas (spun from Egyptian cotton lint) are only partially filled. This virtual decoupling of private weaving, knitting and RMG production in Egypt from marketing, ginning and spinning of domestically produced lint is due to uneven liberalization and privatization, domestic cotton pricing policies that favor the use of cheaper imported raw material, and a policy exception, the duty drawback system.⁶² The explosive growth of RMG manufacture is due largely to this policy exception.

Let markets set prices, not committees or government agencies. As a major producer of long- and extra-long staple cotton, Egypt's production levels and pricing decisions influence world markets for fine cotton. Given the increasing share of pima, however, this ability to make (world) prices is declining. Egypt is increasingly a price taker, especially as world consumption of fine cottons has declined since the 1980s. Upland cotton and polyester, once considered as unlikely substitutes for fine cotton, have increased in quality and price competitiveness and are now at least imperfect substitutes for fine cotton.

ALCOTEXA's setting of export prices, which in many years has been a one-time, early season exercise, has improved over time. GOE intervention in pricing seed cotton and fixing margins to ginners and domestic seed cotton traders continues to substitute for a more world market-driven price discovery process. Once prices and margins are set in late August/early September, it becomes very difficult to make more than minor or symbolic adjustments. This rigidity in pricing robs Egypt of a key tool in competing in increasingly integrated, fast-moving, and fluctuating international markets. The GOE has the prerogative, of course, to subsidize cotton producers, but using the price mechanism to do this distorts incentives (in production), sends mixed signals to private market participants and prospective investors, can limit private sector participation in marketing, and can penalize firms downstream who use Egyptian lint cotton in textile production.

⁶¹ Large, privatized or joint venture private spinners operate in much the same way as public sector spinners. They typically have privileged access to cotton lint bought by the public trading and ginning companies or imported by the Holding Company.

⁶² Under the duty drawback system, weavers, knitters and RMG producers can import foreign yarn and fabric without paying duties and use it to make exported textile products.

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ANNEX 1: COTTON and TEXTILE COMMITTEES

A typical feature of socialist economies is their reliance on committees to make important economic decisions regarding resource allocation, who can make investments and participate in particular markets, and whose operations get subsidized. In market economies, economic “decisions” are through the interplay of private firms, acting in their competitive self-interest, industry and business associations playing advocacy roles, and by government, which attempts to create and maintain a positive enabling environment that fosters free entry and competition. Government also has an important regulatory role to play in making the economic playing field level, in identifying, investigating, and (where suitable) punishing collusion and anti-competitive practices, and in disseminating information about the rules of the game to various players via easily accessible public media. Still perceived as the government’s crop in many quarters, cotton (and the cotton subsector) remains highly regulated in Egypt, even with good progress in liberalization and privatization. Through an elaborate committee system, the GOE still makes key decisions that affect participation in the cotton trade, allocation of the crop, prices at various levels of the subsector, and public and private investment. This annex identifies a number of key committees and their members.

One feature of decision-making by committee is that, in many cases, decisions are not made before there is a 100 percent consensus. This is difficult to achieve under any economic system, but particularly in a liberalizing and increasingly market-driven economy. There are several cases where agricultural or agribusiness policy reforms were delayed in Egypt because of one or two dissenting voices. Decision-making by committee typically slows down the reform process and may block it entirely in certain areas if a key stakeholder on the committee recognizes that his private or organizational interests will be hurt by reform. In an economic system where certain individuals and their organizations derive benefits from control of particular parts of the system, it is almost impossible to make policy or regulatory changes that will have a neutral or positive impact on everyone in that system. Almost by definition, at least one group will be hurt by reform, and a high-ranking official or technocrat who supports reform may end up casting the deciding vote and may often have to co-opt or compensate the “loser” in the process.

1. Supervisory Committee for Cotton Marketing

a) Composition of the Supervisory Committee for the 2000/01 Cotton Marketing Season

There are actually *40 members* on the Supervisory Committee, *including the chairmen of all six of the public sector trading companies*. Only 8 members of the Committee met 4-5 times in August-September 2000 to establish the rules for seed cotton trading during the 2000/01 marketing season, however. This inner circle includes the following people:

1. Yusuf Abdurahman, Chairman of PBDAC (and acting head of the Horticultural Services Unit)
2. Dr. Mohammed El Moghazy, General Secretary of the Committee
3. Hussein Amin, Bostaneya
4. Yassin Osman, Managing Director of Shamal El Saied (private sector representative)
5. Ahmed Moustapha Amer, Modern Nile (private sector representative)

6. El Sayed Ezz El Arab, Chairman of Delta Ginning Company
7. Mamdouh Abdel Sattar, Chairman of Eastern Cotton Trading Company
8. Mrs. Ahlam Selim Abou Zeid, PBDAC, Director of Marketing and Credit Sector

The other members of the Supervisory Committee for the 2000/01 marketing season include:

9. Abdel Salam Abbas, Deputy General Secretary of the Committee
10. Chief of the Cotton Council
11. Reda Ismail, Head of Agricultural Extension
12. Chief of Central Administration for Seeds
13. Director of the Cotton Development Fund
14. Hussein Yahaya Awad, Director of CRI
15. Moustapha Mohammed Saideen, General Supervisor for the Financial Sector of Marketing (PBDAC?)
16. Ahmed El Gohary, Head of Cotton, Fibers and Oil Crops Board
17. Shazly Sayed, Managing Director of Marketing in PBDAC
18. El Sayed Erfin Rashed, Chief of Grading Sector in CATGO
19. El Sayed El Kholy, Chief of Central Administration for Administrative Affairs, MALR
20. Ahmed Selim, Chairman of Misr Ginning
21. Mohammed Mahdy Shouman, an expert
22. Roushdy Mahmoud Haseeb, Agricultural Bourse

b) *Composition of the Supervisory Committee for the 1999/2000 Cotton Marketing Season*

This was created by Minister Wally's Decree No. 150 of 9 August 1999.

- | | | |
|-----|--------------------------------|--|
| 1. | Hassan Khedr | Chairman, PBDAC |
| 2. | Dr. Mohamed Moghazy | President of The Supervisory Committee for Cotton Marketing |
| 3. | Dr. Abdel Salam Mohammed Abbas | Vice President (Deputy of General Secretary Committee) |
| 4. | Dr. Hussein Yehia Awad | Director of the Cotton Research Institute |
| 5. | Acc. Mostafa Mohamed Seidein | General Supervisor of Financial Organization for Marketing |
| 6. | Eng. Ahlam Selim Abou Zeid | Head of Credit & Marketing Sector at PBDAC |
| 7. | Dr. Ahmed El-Gohary | Head of Cotton, Fibers and Oil Crops Board |
| 8. | Eng. Sayed Shazly Sayed | General Director for Marketing at PBDAC |
| 9. | Acc. Mamdouh Abdel Sattar | Executive Vice Director for the Cotton & International Trade Holding Company |
| 10. | Eng. El Sayed Erfan Rashed | Head of Sorting and Arbitration Sector in the Arbitration Organization (CATGO) |
| 11. | Eng. El-Sayed Ezz El-Arab | Chairman of Delta Cotton Ginning Company |
| 12. | Eng. El-Sayed El-Kholy | Head of the Central Administration for Governorate Affairs in MALR |
| 13. | Eng. Ahmed Selim | Chairman of Misr Cotton Ginning Company |

14. Mr. Mohamed Mahdy Shouman experienced person
15. Mr, Ahmed Moustafa Amer Modern Nile Company

2. Steering Committee for the Cotton, Fibers and Oil Crops Board (created by Ministerial Decree No. 78 of 1999)

1. Youssouf Wally, The Minister of MALR (committee chairman)
2. Saad Nassar, Director of the Agricultural Research Center
3. Youssouf Abdel Rahman, Chairman of PBDAC
4. Ahmed El Gohary, Head of Cotton, Fibers and Oil Crops Board (committee reporter)
5. Head of Agricultural Services and Follow-up Sector
6. Head of Agricultural Extension Sector
7. Head of The Holding Company for Food Industries
8. Nabil Marsafawy, Head of the Holding Company for Cotton and International Trading
9. Abdel-Hakim Haggag, Head of the Holding Company for Spinning, Weaving and Ready Made Clothes (HC-SWRMC). He was replaced by Moataz Bellah Abdel Maksoud as head of the consolidated HC-SWRMC in late June 2000.

3. The Cotton Council

This committee, headed by Ahmed El Gohary, meets approximately monthly to discuss issues affecting cotton production, marketing and trade. The November 2000 meeting focused on the cotton logo. The meeting planned for December 2000 will focus on the cotton variety map for the 2001 season. Note that there is only one private sector member of this council, Amin Abaza, who is Managing Director of the Modern Nile Cotton Company.

MALR Representatives

Eng. Reda Ismail	Undersecretary for Agricultural Extension
Eng. Mohamed Omar Raslan	Supervisor of Lower Egypt Cotton
Eng. Osman Ahmed Awad	Supervisor of Upper Egypt Cotton
Eng. Abdel Aziz Youness	Assistant Secretary for the Cotton, Fibers and Oil Crops Council
Dr. Khalil El Malky	Chief of Central Administration for Pest Control
Mrs. Soheir El Hazek	Manager of Cotton Development Fund
Dr. Ahmed Hegab	Supervisor of Cotton Development Fund
Eng. Sayed El Khouly	Chief of Central Administration
Eng. Salah Abdel Wanis	CSPP Seeds Expert
Mr. Heinz Burgstaller	CSPP/GTZ
Dr. Bakir Otefa	MALR Technical Consultant

ARC Representatives

Dr. Ahmed El Gohary	Chairman of the Cotton Council, former CRI Head
Dr, Mohamed El Moghazy	(retired) consultant to ARC, General Secretary
Dr. Fawzy Naeim	Deputy Director of ARC

Dr. Abdel Azim Tantawy	Director of the Field Crops Research Institute
Dr. Mohamed Abdel Salam	(retired) Cotton Research Institute
Dr. Hussein Yehia Awad	Director, Cotton Research Institute
Dr. Abdallah Abdel Moneim	Director, Plant Disease Research Institute
Dr. Mahmoud El Naggar	Director, Plant Protection Research Institute

Officials from CATGO and Other GOE Agencies

Eng. Ahmed Masekh	Consultant of Cotton Affairs in MTS
Eng. Mahmoud Ads	Chairman of CATGO
Eng. Sayed Erfan Rashed	Chief of Grading Sector, CATGO
Eng. Fouad Abu Hadb	Chairman of The General Association for Reclaimed Land

Cotton Trade Representatives

Eng. Nabil El Marsafawi	Director of Cotton & International Trading Holding Co.
Eng. Said Haggag	Director of ALCOTEXA
Eng. Shafik Gomaa	Chairman of Misr for Cotton Export Co.
Eng. Abdel Latif El Tabbakh	Chief of Procurement Sector, SWRMC-HC
Amin Abaza	Managing Director of Modern Nile for Cotton Co.
Eng. Adel Leheta	Chairman of Alexandria Trading Co.
Eng. Sayed Ezz El Arab	Chairman of Delta for Cotton Ginning Co.
Eng. Ahmed Selim	Chairman of Misr for Cotton Ginning Co.
Eng. Mamdouh Abdel Sattar	Chairman of Eastern Cotton Co.

Representatives of Cooperatives

Mr. Mahmoud Abu Gharib	Chief of General Coop for Agricultural Reform
Eng. Saleh Youness	General Manager of General Coop for Reclaimed Land
Mr. Ahmed Ashmawy	Chief of General Cotton Marketing Cooperative
Mr. Mohammed Idriess	Chairman of the Cooperative Union

4. The Cotton Variety Committee

This is not a formal committee as such. It is basically an informal committee within the Cotton Research Institute. CRI reports that it asks key people, such as Acc. Moataz of the Holding Company and Amin Abaza of Modern Nile, for input on varieties. CASP also provides input, as seed availability is a key consideration. This committee meets mainly after the harvest of the seed cotton crop (in the fall), once planting seed supplies are known and months before the next season's planting.

1. Ahmed El Gohary, Chairman, former CRI Head
2. Dr. Hussein Yehia Awad, Director of the Cotton Research Institute
3. Dr. Mohamed Moghazy, former Director of ARC
4. Mohammed Abdel Salaam Gomaa, former CRI cotton breeder
5. Reda Ismail, Undersecretary for Agricultural Extension, MALR

6. Ali Seda, Undersecretary for Governorate Affairs, MALR

5. The Commercial Committee of the Textile Consolidation Fund

Until all of the textile affiliated companies were transferred to the Holding Company for Spinning, Weaving and Ready-Made Clothes in late June 2000, this was the composition of the Commercial Committee.

1. Chief of the Permanent Fund Committee, Head of TCF, Abdel-Hakim Haggag
2. Chairman of the Holding Co. for Manufacturing Textiles and Trade, Moataz Bellah Abdel Maksoud
3. Chairman of the Holding Co. for Cotton and International Trade, Nabil El Marsafawy
4. Chairman of Misr Co. for Spinning & Weaving (Mehalla El Kobra)
5. Chairman of Misr Co. for Fine Spinning & Weaving (Kafr El-Dawar)
6. Chairman of Unirab for Spinning & Weaving, Salah Abdel Salam
7. Chairman of El Siouf for Spinning & Weaving, Ahmed Imam
8. Chairman of El Nasr Co. for Wools and Fine Textiles (STIA)
9. Chairman of Misr Shebin El-Kom for Spinning & Weaving, Hussein Mubarak
10. Chairman of Alexandria for Spinning & Weaving, Reefat Helal
11. Chairman of Misr Amriya for Spinning & Weaving, Mohammed El Hamy Abdel Moneim
12. Chairman of Misr Iran for Spinning & Weaving, Abdel-Hakim Haggag
13. Chairman of Damietta for Spinning & Weaving
14. Chairman of Delta for Spinning & Weaving, Abdel Maguid Assal
15. Chairman of National Co. for Spinning & Weaving, Fawzy Mohammed Salem
16. Chairman of Dakahlia Co. for Spinning & Weaving, Maher Anwar
17. Chief of the International Trade Sector in MEFT, El Sayed Moh. Abou El Omsan
18. Consultant to the Holding Co. for Spinning, Weaving and Ready-Made Clothes, Mr. Taha El Kady
19. General Manager of the Textile Consolidation Fund, Magdy El Aref
20. Chief of Trading Sector for Prices and Export Procedures, MEFT?
21. Chief of Trading Sector for Research and International Affairs, MEFT?
22. Manager of General Administration for Prices, MEFT?

6. Permanent Committee Members of Cotton Textile Consolidation Fund

The Permanent Committee has broader private sector representation than the Commercial Committee.

1) Members Nominated by The Chamber of Textile Industries

1. Eng. Abdel-Hakim Haggag, Chief of the Permanent Committee of the Textile Consolidation Fund
2. Mr. Moataz Abdel Maksoud, Chairman of Misr Spinning & Weaving
3. Eng. Salah Abdel Salam, Chairman of Misr Amriya S & W (Private Sector)

4. Mr. Abu El Seoud Sultan, Sultan Trading Agency (Private Sector)
5. Mr. Mohamed Farid Khamis, Textile Industry Co. (Private Sector)
6. Eng. Abdel Wahab Sharkawy, Sharkawy Textile Factory (Private Sector)

2) Permanent Committee Members

7. Eng. Hamdy Mahmoud Mohamed Sanad, Chief of Industrial Monitoring Association- Ministry of Industry
8. Mr. Ali Mohamed Kamel El Hawam, Chief of Local Trade Sector, MSIT
9. Mr. Nabil El Marsafawy, Chairman of the CIT-HC (changed to Chairman of HC-SWRMC?)
10. Dr. Youssein Yehia Awad, CRI-ARC
11. Mr. El Sayed Mohamed Abu El Komsan, Chief of Foreign Trade Sector, MEFT

3) Members to be included only when discussing Fabricated Silk Industry Consolidation:

12. Eng. Mohamed Ali Mohamed Atteia, Chairman of Misr Co. for Fabricated Silk
13. Mr. Ahmed Hamed Selim, Chairman of ESCO
14. Eng. Faeouk Abu El Makarem El Zaghl, Representative of Private & Investment Sector

7. The Lint Cotton Facilitating Committee

1. Moataz Bellah Abdel Maksoud, Head of the SWRMC-HC
2. Mohammed A. Tabbakh, Head of Supply and Import Sector, SWRMC-HC
3. Chairman of Alcotan, Said Haggag
4. Chairman of Al Kahira, Sayed Nasr
5. Chairman of Alexandria Commercial Company, Adel Leheta
6. Chairman of Eastern Cotton Company, Mamdouh Sayed Abdel Sattar
7. Chairman of Société Misr pour l'Exportation du Coton, Shafik M. Abdel Kader Gomaa
8. Chairman of Port Said Cotton Export Company, Dr. Wagdy Hendy
9. Chairman of El Wady Cotton Ginning and Trading Company, Bahaa El Sherif
10. Chairman of Delta Company for Cotton Ginning and Trading, El-Sayed Ezz El-Arab
11. Chairman of Misr Ginning Company, Ahmed Selim

8. The ALCOTEXA Management Committee, January 1998-January 2001

All four officers have been chairmen of public cotton trading companies since 1998. Among the other members, three represent other public companies, six represent private companies, and three represent the GOE in other capacities (including the Chairman of the CIT-HC).

President Said Mahmoud Haggag, ALCOTAN

1st Vice President Dr. Wagdy Hendy, Port Said

2nd Vice President El Sayed Fouad Nasr, Al Kahira

Financial & Admin Shafik M. Abdel Kader Gomaa, Misr
Secretary

Members: Mamdouh Sayed Abdel Sattar, Eastern (public)
Adel Mohamed Leheta, Alexandria (public)
A. Yehia Helal, Modern Nile (private)
Medhat El Alfy, Nassco (private)
Ahmed Shouman, Nefertiti (private)
Effat M. Eid, Nile Ginning (private)
Mohamed Zaki Montasser, Talaat Harb (private)
Mohamed A. El Bishbishi, Al Watany (private)
Dr. Farouk Abdel Bar, Vice Chairman State Council, Counselor of State
Nabil A. El Marsafawi, Chairman Cotton and International Trade Co.
El Sayed Moh. Abou El Omsan, Head of Foreign Trade Sector, MEFT

Government Commissioner: Ahmed M. El Massekh

Deputy Executive Director: Sobhi A. Mashaal (deceased as of October 2000)

In late October 2000, ALCOTEXA held elections for the new Management Committee, which will meet for the first time in January 2001. The members of this new Committee, dominated by private sector traders (n=10), include:

1. Ahmed Baraghith, Tanta Cotton Company
2. Amin Abaza, Modern Nile for Cotton Trade
3. Ahmed Shouman, Nefertiti for Cotton Trading and Export
4. Medhat El-Alfi, Nassco Cotton Trading Co.
5. Alaa El-Bashbishi, El-Watany Cotton & Agricultural Development Company
6. Ezz El-Din El Dabbah, Arab Investment Co. (ATICOT)
7. Mohamed Saied, El-Mabrouk Cotton Co.
8. Mohamed Zaki Montasser, Talaat Harb Cotton Co.
9. Zaki El Edkawi, Edco Cotton Export Co.
10. Effat Eid, Nile Ginning Co.

The two elected members from the public sector are:

1. Shafik Gomaa, Misr Cotton Export Co.
2. Ahmed Selim, Misr Cotton Ginning Co.

9. Committee Setting Cotton Prices

Headed by Saad Nassar, this committee includes:

1. Said Haggag, Chairman of Alcotan Cotton Trading and Export Company
2. Amin Abaza, Modern Nile Cotton Company

3. Ahmed El Gohary, head of the Cotton, Fibers and Oil Crops Board
4. Dr. Hussein Yehia, CRI Director
5. Mohammed A. Tabbakh, SWRMC-HC
6. Mohammed Moghazy, consultant to ARC
7. Moataz Bellah Abdel Maksoud, Head of the SWRMC-HC
8. El Sayed Moh. Abou El Omsan, Head of Foreign Trade Sector, MEFT
9. Mohammed El Sharkawy, MEFT, Head of the Cotton Sector
10. Abdel Barry Hamed, former MALR Undersecretary, responsible for the Cotton Stabilization Fund
11. Reda Ismail, MALR, Undersecretary for Agricultural Extension

10. Committee for Domestic Cotton Trading

1. Nabil El Marsafawy, Committee Chairman and Chairman of the International Trade Holding Company (formerly CIT-HC)
2. Ahmed Baragith, Committee Vice-Chairman and Head of Tanta Cotton Company
3. There are other members. MVE was unable to obtain this information on a timely basis.

ANNEX 2: THE AFFILIATED COMPANIES OF THE TEXT OF THE HOLDING COMPANY FOR SPINNING & WEAVING & READY-MADE CLOTHES

Note that this HC includes affiliated companies other than textile companies.

Cotton Trading Companies (6)

Alexandria Trading

Cairo for Cotton

El Sharkeya for Cotton

Investment Trading & Cotton Export (probably Alcotat Cotton Trading and Export Company; sometimes referred to as Al-Moshama)

Misr for Cotton Export

Port Said for Cotton Export

Ginning Companies (3)

El Delta for Cotton Ginning

El Wadi for Cotton Ginning

Misr for Cotton Ginning

Cotton & Cotton Blend Spinning and Weaving Companies (17)

Al Seyouf Spinning & Weaving

Dakahlia Spinning & Weaving

Damietta Spinning & Weaving

Delta Spinning & Weaving

El Nasr Spinning Dyeing Weaving & (Mehalla El Kobra)

El Nasr Wool & Selected Textile Co. (STIA)

El Sharkeya Spinning & Weaving

Industrial Outlets for Cotton & Silk (ESCO)

Middle Egypt for Spinning & Weaving

Misr for Fine Spinning & Weaving (Kafr El Dawar)

Misr for Spinning & Weaving (Mehalla El Kobra)

Misr Helwan Spinning & Weaving

Misr Shebeen El Kom Spinning & Weaving

National Spinning & Weaving

Port Said Spinning & Weaving

Shourbagy and Tricon

Upper Egypt Spinning & Weaving

Dyeing and Finishing Companies (3)

Alexandria Dyeing Company

Cairo Dyeing & Preparation

Misr White Dyeing

Other Companies (9)

Alexandria for Carpet & Furniture

Arab Carpet & Furniture

Egyptian Cotton Pressing

Egyptian Wool Spinning & Weaving (Wooltex)

El Sharkeya for Linen & Cotton

General Company for Jute

Misr for Spinning & Weaving Equipment

Misr Polyester Fibers

Misr Synthetic Silk

Leased Plants (2)

DIP Egypt (Mostorad unit, which is part of ESCO)

Minya El Kamh Spinning (three units belonging to El Sharkeya Spinning & Weaving)

Other Plants (status unknown)

El Mahmoudia Spinning & Weaving

Kom Hamada Spinning & Weaving

Meet Ghamr Spinning

**ANNEX 3: MEMBERS OF THE RICE SUBCOMMITTEE OF THE AGRICULTURAL
COMMODITY COUNCIL**

No.	Name	Organization	Tel	Fax
1	Dr. Osama Kheir El-Din	El-Hoda & ACC Chairman	2753500 2753700	2752900
2	Dr.Hamed El-Mabrouk	El-Mabrouk & ACC Treasurer	03/4202222	03/4214777
3	Mohamed M. El-Ashmawy	El-Dakahleya Mills	050/345057	
4	Abd El-Fattah Ghoneim	Damietta Rice Milling Co.	050/794032	
5	Adel El-Shahawy	Alexandria Rice Milling Co.	03/3910258	03/3910158
6	Moussa Fathallah Kassab	Head of Rice Branch, Cereals Industry Chamber	047/562986	
7	Ashraf El-Attal	Egyptian Traders Co.	03/4841177	03/4843002
8	Nasser El-Sharkawy	Misr Company	3910557	3918704
9	Samir El-Naggari	Fresh Fruit Company	3361905	3379623
10	Ahmed El-Wakil	Wakalex Company	03/513752	
11	Mohamed Ibrahim Omar	Egyntex Company	4864125	4865728
12	Mostafa Ghorab	El-Fostat Company	3905400	3901547 3904965
13	Hussein El-Harawi	Misr Co. for Rice Export	03/5920294	03/5918805
14	Naser El-Sharkawi	Misr Co. for Exports and Imports	3918704	3915189
15	Abdel Fatah Hamed Salman	El-Wadi Co. for Agricultural Commodities Exports	03/4835646 03/4875439	03/4861363
16	Hussein Mekawi	Misr Company for Trade	03/4173588 03/5968805	03/4174226
17	Hassan A.El-Hamid Salam	Alexandria Rice Mills	03/4924876 012/2159183	
18	Abdo Badawi	Mecca for Trade Company	4020198	2624170
19	Yousri El Hawari	Cereals Industry Chamber	5862421	5766080
20	Dr. Ahmad El-Hessewi	Rice Technology Institute	03/4218780	03/2581585
21	Abd El-Sattar Soliman	Food Industries Holding Co.	3494826	3492312
22	Abd El-Ghaffar Salam		050/322815	050/348517
23	Wasfi A. El-Aziz	El-Dakahleya Mills	050/2594926	050/2594967
24	Fessal Eid	Food Industries Holding Co.		
25	Idriss Abass Sala-m	El-Pasha Company	2042842	2037247
26	Ali Mossad Zein El-Din		045/911111	045/910468 045/911222
27	El-Nasr for Exports and Imports		5762500	777257
28	Rice Marketing Company		7957049	7949983

ANNEX 4: PRIVATE INDUSTRY OBSERVATIONS ON COTTON MARKET LIBERALIZATION, 1999/2000 SEASON

The following statements are either direct quotes or paraphrased statements of various private sector cotton traders and exporters, made during the 1999/2000 marketing season. They are evidence of strong private industry support for further and faster liberalization and privatization.

Minister Goueli set export prices this season (1999/2000) before he left office, not ALCOTEXA. If the market was really free, ALCOTEXA would disappear. It has no role to play.

Egypt should not be importing upland cotton which it can produce in Egypt. Egyptian upland cotton would be just as good as the imported upland.

The Minister of Agriculture doesn't follow the recommendations of the market. He sets the varieties for political reasons to try to please the farmers. He has planted too much G-70 because the yield is good, but we have no demand for it. So it is not based on market demand.

The government is not serious about privatization. If they were serious, they would privatize the cotton trading companies.

The government should get out of the cotton business, but they don't want to for political reasons. They want to pay the farmers to support their income and to keep jobs for all the workers in the spinning mills.

With both public and private firms in the market, both lose. The public firms lose money on behalf of the government and they force the private firms to lose money.

To have a good cotton industry you need a base of small private traders at the local level. The system this year is particularly hard on the small local traders. This trader keeps contact with people in Alex that keep up with the international markets. His knowledge of prices determined his strategy this season.

All of the private traders got fewer rings than they requested. This decision to limit the rings to the private sector was made by Marsafawy. There was a big meeting which most of the private traders attended. Bigger traders got a higher percent of the rings they requested than did the small companies.

The government needs to give more freedom to the market and needs to have more respect for the private traders. The uncertainty of the government policies is a serious problem.

In general the government makes too many regulations and rules. Government must get completely out of the marketing business.

All of the traders should get together for discussions of all of the cotton marketing problems. They should put out a report where everyone's statements are reported with the names. The government is

not listening to the private traders. The traders can't do this (produce such a report) in ALCOTEXA. (This trader) wants complete transparency, and he wants people to put things in writing and an organization to discuss these things.

Distribution of sales rings was a big game this year. The private traders knew there was a shortage of cotton and they expected that they would not get the rings requested, so Nassco requested twice as many as they got, which was more than they really wanted. But Nassco ended up getting about what they expected to get. Last year they got exactly what they requested. This year the committee chaired by Marsafawy kept back a lot of cotton for the public sector firms.

The ban (on LS exports) did not have much effect on total exports. The world market is bad, and Egyptian exporters would not have exported much more without the ban. But they still did not like it, because of the (negative) impression it makes on foreign buyers. This is bad policy.

Each year there is a big meeting with all of the traders and the spinners, but then the Ministry of Agriculture does whatever it wants on varieties. Varieties should be chosen on the basis of market demand.

Local spinners should import more upland cotton. The price of good upland cotton is now about 43-44 cents/lb., so it should be imported. It should not be produced in Egypt.

One trader had complaints about the PBDAC operations. Weighing was not very accurate, and PBDAC was slow in providing the permits to move the cotton to the gins and there were problems with the sacks. Next year he won't sign up for any PBDAC rings but will buy on his own. This year he gained experience but no profit.

The uncertainty is so great in the cotton business that no one can be in the cotton business only. One would not want to operate every year, so you have to have another source of income.

Cotton takes too much capital, and your capital is tied up for such a long period. You need bank financing and you end up paying large finance costs.

A trader put in a request to buy 150,000 kentars from the rings, but they told him that he must pay the official prices at the rings, which were higher than the international prices. When they told him there would be deficiency payments, he decided not to accept any rings because he did not want to wait, possibly for years, to get the deficiency payments. If the GOE had promised to pay on a certain date with interest, then he would have been interested in buying cotton this way. He thinks the other traders may never get their money for these payments.

He didn't apply for any PBDAC sales rings, because he doesn't believe in buying cotton through these rings. He wants to select the cotton he buys. He doesn't want to be forced to buy bad cotton.

ANNEX 5: SOME THOUGHTS ON THE PRIVATIZATION PROCESS, ITS OBJECTIVES AND ITS INTENDED OUTCOMES

The Privatization Process and Focus in Egypt

As a general comment on the apparent thrust of privatization strategy, the GOE has to decide whether the privatization program is primarily aimed at improving the performance of the economy or generating revenues for the state. GOE announcements in the Egyptian press suggest that the Government considers privatization as a source of funds for various other public expenditures—costly early retirement packages for workers, finance for mega-projects, or other public investments (which may not be subject to rigorous economic and financial criteria).

It is more appropriate to emphasize that privatization leads to more competition and subjects former public companies to the discipline of the marketplace. Competitive domestic and *international* markets reward strong management, efficient and market-driven production, and well-targeted marketing efforts. The better public firms will survive the adjustment to privatized enterprises, and these companies will compete in industries that are more market-responsive, creating more jobs and more exports, leading to greater income streams. Resources will also be inevitably taken out of industries with excess capacity, such as cotton ginning and spinning, and transferred to agribusiness and other investments with higher returns. In conclusion, the appropriate GOE focus should be on the benefits of competitive markets and industries, better management of firms under private sector leadership, and higher-quality, market-driven production. The focus on GOE revenues generated by completed privatizations, and the unrealistically high asset valuations that this focus encourages, would disappear.

Another barrier to further privatization is the pervasive misunderstanding of sunk costs. As economists note, sunk costs are just that—sunk costs—neither a basis for valuing public company assets, nor one for making decisions about the future of a troubled public company or an inefficient industry. Most Egyptians, including policy-makers, HC officials, and heads of AC's, think that because there are huge public investments in giant textile factories, rice mills, flour mills, and oilseed processing plants, someone has to continue to use these assets (however degraded and idled they may have become) or at least get a high return on their sale. A potentially more harmful variant of this thinking is that the GOE should pour a lot more new money into "rehabilitating" idled capacity (this may be an economically viable thing to do in up to 25% of the cases, but certainly not in the majority of cases). Until people understand that sunk costs should not guide future resource allocation decisions, progress in privatization is likely to be limited.

Egyptian Management Culture

Private sector management along western capitalistic lines encourages gathering and interpretation of market intelligence, production of goods for specific market niches, making bold decisions (rather than waiting for committees to make decisions), and taking calculated risks. There are sometimes constraints in Egypt that may make adoption of this management model slow and in many cases incomplete.

In this model, there is delegation of authority and mid-level managers (or foremen and workers at the production line level) are empowered to make decisions (and live with the consequences). Egypt management culture, whether in a public, private or non-governmental organization, discourages individual initiative, taking responsibility for one's actions, relatively flat organizational profiles, and teamwork. Private firm managers often do not delegate authority. This tends to centralize decision-making power in one or two key individuals, who get overloaded and have trouble focusing on key strategic directions for their firms and the demands of rapidly changing markets. These characteristics of the Egyptian workplace and management culture may constrain growth of companies beyond medium-size family-owned firms to (more efficient and more desirable) corporations with empowered mid-level managers with well-defined responsibilities, motivated lower-level managers and employees rewarded for good performance, and promotion based on merit.

The GATT and Increasing International Competition

Despite these concerns about Egyptian management culture, competitive markets have a way of disciplining the firms that operate in those markets. Privatization will allow a new generation of private sector managers to emerge and develop. Some will be more efficient and prosper, making quick and intelligent decisions about production and market opportunities. Some other privatized companies will die off, and the GOE cannot and should not do anything about them. Subsidies and bailouts will only squander scarce public resources that could be better invested in improving infrastructure or education.

Another set of pressures will come from Egypt's compliance with WTO/GATT agreements during the next 5-10 years, when decreases in tariffs will lead to increased imports that could hurt certain firms that have operated in protected markets for a long time. Although the new private sector managers will not have a lot of time to adjust to these pressures, some will survive and flourish in the more competitive and open Egyptian economy.

The next 5-10 years of privatization will be interesting to observe. The ultra-gradualist model of market liberalization/privatization is going to be put severely to the test. The fact that tariff reductions don't really kick in until 2001 has given Egypt six years of breathing space, following the 1995 signing of the GATT agreement, during which the country has made respectable (though slow) progress in liberalization and very uneven and (in many cases way too) slow progress in privatization. The significant depreciation of the currency underway will add another set of pressures (much higher import costs) that could force further adjustments.